Financial monitoring policies of microfinance institutions in Accra: Policy formulation and implementation challenges

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November 2016

Durban University of Technology

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by

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Submitted in fulfillment of the requirements for the Degree: Doctor of Philosophy (Business Administration) in the Faculty of Management Sciences at the Durban University of Technology

November 2016

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ABSTRACT

Although numerous articles have been published globally on microfinance (MF), essentially highlighting the need to regulate microfinance institutions (MFIs), none of these, to the knowledge of the researcher, specifically explore in profundity the formulation process of financial monitoring policies (FMPs), their implementation, and the challenges MFIs encounter in implementing these policies. The wave of distressed and failing of MFIs in Ghana and the loss of hard-earned thrift deposits of the poor, therefore demand for this investigation.

This study consequently viaducts the gap and contributes to the debate by reviewing the specific financial policies pertaining to MFIs, their formulation, implementation of such policies, and the challenges MFIs encounter relating to those policies. Also introduced into the MF research arena, is the concept of implementation theory to move knowledge frontier forward. Further, the outcome will be of particular relevance to all emerging economies who view MFIs as praxis for poverty alleviation, employment creation and addressing inequality.

The study adopted a mixed research approach, with both qualitative and quantitative data gathered from a sample of 65 MFIs in Accra through a self-administered, Likert-scaled questionnaire. Data were analysed using SPSS version 24.0, with results presented in frequency tables, figures, correlation tables, and cross-tabulations.

The findings reveal that FMPs exist for MFIs in Ghana – Accra, particularly. However, regulation formulation is shown to be lopsided, with implementation of FMPs, and monitoring and supervision thereof, also found to be deficient. The results further indicate that using minimum capital as a tool to ensuring efficiency in the sector, is a major obstacle to overcome to create an impetus for regulatory non-compliance. Based on the findings, the research recommends consideration by policymakers and MFI monitoring units to create a semi-autonomous institution, the National Microfinance Promotion Authority, to regulate and supervise the MFIs in Ghana. It is also recommended that research focus be shifted to policy implementation regarding MF operations.

Key words: Microfinance, Policy Formulation, Regulation, Implementation

DECLARATION

The submission is the result of my own, independent work/investigation, except where otherwise stated. This work has not been previously accepted in substance for any Doctoral Degree, and is not being concurrently submitted in candidature for any other Doctoral Degree. All sources consulted in the course of the study are duly acknowledged with explicit references.

Kwami Hope Quao
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ACKNOWLEDGEMENT

This dissertation could not have been completed without the able guidance of Dr. L. M. Lekhanya, my supervisor, mentor, friend and brother. Doctor, your provocations, encouragements, time for everything every time and 'can do it' assertive spirit have driven me to pursue this study to its state today. You imprinted your passion to help others to achieve success on my life. Your views enlightened my path to greater academic achievement and a successful career. I appreciated your support and scholarly guidance throughout the study.

The support from Professor Nirmala Dorasamy, and her willingness to serve as my co-supervisor, when frustration was gaining ground, is acknowledged. Professor, I can't say much but *Thank you*.

The Project Officer and especially the administrative secretary, Promise, are remembered. You tolerated my frustrating frequent visits to your offices for no reasons other than my insatiable requests, which you met satisfactorily; thank you.

The Department of Entrepreneurial and Management Studies is acknowledged. Dr. Marie De Beer is not forgotten. Doctor, you set the whole project rolling. Your early invaluable advice did help in many regards. "***If you think this journey doesn't pay, look at me***" was but one invaluable admonition you gave.

My financier, Messrs Akwasi Boadu, no word can better express your financial contributions to this success. I am indeed indebted to you for your priceless support from the **very** onset of my study to this logical conclusion.

Helen Ricther, you made it happen. Mr. Deepak Singh, your marvelous work is worth acknowledging. All other persons, home and abroad, who diversely contributed to this work, are duly acknowledged.

***Jireh**!,* my ultimate deeper innermost gratitude is to your Holy Name!

DEDICATION

For Patrice, Walter and Jolene for their forbearance and to answer their resounding questions to which my previous answers were not convincing though:

"Daddy, why always stay overnight continuously writing?

When will you stop reading all nights long?"

and to

My mother, Josephine, for making the meaning of the word "***focus***" more glaring to me throughout my academic life.

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LIST OF ABBREVIATIONS AND ACRONYMS

AMI	Association of Microfinance Institutions
AMIZ	Association of Microfinance Institutions in Zambia
ARB	Association of Rural Banks
ASCUA	Association of Credit Union
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest
BoD	Board of Directors
BoG	Bank of Ghana
BoT	Bank of Tanzania
BoU	Bank of Uganda
BSP	Bangko Sentral ng Pilipinas
CAMEL	Capital Adequacy, Asset Quality, Management, Earnings and Liquidity
CAR	Capital Adequacy Ratio
CBE	Central Bank of Egypt
CBK	Central Bank of Kenya
CBN	Central Bank of Nigeria
CBS	Central Bank of Sudan
CEMAC	Central African Economic and Monetary Community
CG	Corporate Governance
CGAP	Consultative Group for Assisting the Poor
CSFI	Centre for the Study of Financial Innovation Development Agency
DT-MFI	Deposit-Taking Microfinance Institution
eFASS	Electronic Financial Analysis and Surveillance System
EMFN	Egypt Microfinance Network
EMF	Egypt Microfinance
ENOWID	Enhancing Opportunities for Women in Development

FMPs	Financial Monitoring Policies
FNGOs	Financial Non-Governmental Organisations
GAMC	Ghana Association of Microfinance Companies
GCCUA	Ghana Cooperative Credit Unions Association
GHAMFIN	Ghana Microfinance Network
GHAMP	Ghana Microfinance Policy
GPRS	Ghana Poverty Reduction Strategy
GSAP	Ghana Structure Adjustment Programme
GSGDA	Ghana Shared Growth Development Agenda
GYEEDA	Ghana Youth Employment and Entrepreneurial Development genda
IP	Information Policy
MASLOC	Microfinance and Small Loans Centre
MDAs	Ministries, Departments and Agencies
MF	Microfinance
MFI	Microfinance Institution
MFIs	Microfinance institutions
MFP	Microfinance Programme
MFRC	Microfinance Regulatory Council
MMDAs	Metropolitan, Municipal and District Assemblies
MoFEP	Ministry of Finance and Economic Planning
MRA	Microfinance Regulatory Authority
NAMFB	Nigerian Association of Microfinance Banks
NBFI	Non-Bank Financial Institution
NGO	Non-Governmental Organisations
OECD	Organisation for Economic Cooperation and Development
OFISD	Other Financial Institutions Supervision Department

PEARLS	Protection, Effective financial structure, Asset quality, Rates of return and cost, Liquidity and Signs of growth
PNDC	Provisional National Defence Council
RCBs	Rural and Community Banks
RBT	Resource-based Theory
RBZ	Reserve Bank of Zimbabwe
ROSCAs	Rotating Savings and Credit Associations
SACCOs	Savings and Credit Cooperatives
SBS	Superintendencia de Bancos y Seguros
SEC	Security Exchange Commission
SEWA	Self-Employed Women's Association
SIF	Social Investment Fund
SLCs	Savings and Loans Companies
SMEs	Small and Medium Enterprises
SRO	Self-regulation Organisations
SSA	Sub-Saharan Africa
ToM	Theory of the Mind
WAEMU	West African Economic and Monetary Union
ZAMFI	Zimbabwe Association of Microfinance Institutions

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CHAPTER 1

INTRODUCTION AND BACKGROUND

1.1 Introduction

Microfinance as a revolutionary poverty alleviation concept seeks to promote financial inclusion (CGAP 2011, 2013; Obisesan and Oyedele 2015; Santosh, Subrahmanyam and Reddy 2016) and empower thehardcore poor (Stewart, van Rooyen, Dickson, Majoro and de Wet 2010). The concept gained its glory due to the benefits it accrued to its early adopters across the globe. The UN declaration of 2005 as the year of microfinance (Banerjee, Duflo, Glennerster and Kinnan 2015: 23) further confirms the tremendous impact of MF on the livelihood of the poor in Africa, Latin America, Eastern European countries and the rest of the world.

Despite the glories the MF operations was quickly drawing to historical oblivion due to its exploitative nature (Bateman 2015b) a phenomenon which prompted the quest to regulate the microfinance institutions (MFIs) (Ndambu 2011; Founanou and Ratsimalahelo 2016) and Bangladesh, Peru, South Africa among others established institutions to license and regulate the activities of the MFIs. The non-banking operating guideline of Ghana (BoG 2011) was also a response to the same quest. However, putting these legislations in place also called for proper governance (Karun 2014; Ojo 2013: 6) in place to institute astute risk management (Boateng 2015; Boateng and Boateng 2014: 11; 13; Vishwakarma 2015: 1-80).

The purpose of this study is to explore how MF regulations are implemented and the challenges thereof, if any. This chapter therefore deals with the background of the study, the problem statement and the aims of the study. It also addresses the objectives, research questions and the research hypotheses as well as the rationale of the study. The chapter further highlights the scope of the research, the methodology and brief overview of the entire research on a chapter by chapter basis.

1.2 Background to the Research

Microfinance (MF) has been variously defined. Notably, it is the provision of financial services to poor and very poor, low-income clients that are self-employed (Olanike and Adebola 2014: 133, 135; Otero 1999: 8 in Boateng and Boateng 2014: 12) and engaged in Income Generating Activities (IGA) (Ledgerwood 1999). This definition agrees with the stance of UNDP (Microstart 1997 in Addae-Korankye 2012: 134; Al-Shami *et al.* 2014) that MF is the provision of credit, and other financial services, such as savings and insurance, to micro, small and medium scale enterprises. According to Kipesha and Zhang (2013: 136; 137), microfinancing is the provision of financial services to poor households, as a means of assisting poverty alleviation programmes in communities.

To these definitions, is 'financial services to the poor' and in the construct of this study, MF is best described as a specialized financial scheme, arranged for the poor, who are excluded from access to financial support by the formal banking system, due to lack of collateral. It is a developmental tool and alternative financial strategy, to empower the active poor to access credit at an affordable rate (Boateng and Boateng 2014: 15, 23). Notwithstanding this, MF charges the highest interest rates because they predominantly fall in the grey area, of often not needing collateral deposits from borrowers.

Globally accepted as a means of alleviating poverty (Sowmyan, Sakthi and Praveen 2011) MF also has a high level of advocacy (Stewart *et al.* 2010). The MF concept has been adopted by many countries, including Ghana, as a tool for informal sector development and a means of achieving the Millennium

Development Goals (MDGs) (Kipesha and Zhang 2013: 137; Addae-Korankye 2012: 135, 138).

MF concept and its relevance to poverty reduction and promotion of rural enterprises furthermore attracted the academia and attention of international development partners (Hassan and Said 2014: 2; 4). However, most work done has centred on its effects on poverty reduction, micro enterprise and rural development (Quao 2011; Sowmyan *et al.* 2011; and Stewart *et al.* 2010). These studies stated the socio-economic influences of MF on growth in income, reduced vulnerability, health improvement and increase in employment (Quao 2011; Busch, Bauer and Orlitzky 2015: 3 and Hassan and Said 2014: 13).

Other literature indicates the mixed impacts of the MF concept on the poor. Sinclair (2012) indicates that MF does not benefit the poorest of the poor and in their view, is instead another dramatic level of greed, deceit and business trickery. Notably, Bateman (2015a) asserts that it is a publicity campaign phenomenon, which supports businesses to make statements that endorse MF as being helpful to the poor. Bateman's view is supported by Sinclair (2012), who cites inadequate implementation of MF regulations, as well as insufficiency of such regulation (Crépon, Devoto, Duflo and Pariente 2011).

Dupas and Robinson (2015) argue that MF is accused politically and socially in Kenya as well as other African countries, Southern Asia and Latin America for over-indebting their clients. The authors provide analysis of low take-up of institutional regulation in MFIs in Kenya and identify insufficient regulation (Addae-Korankye 2012: 141) and poor management as among the myriad of challenges facing the MFIs. Dupas and Robinson (2015; 2011) suggest institutional capacity building (European Commission 2011) and effective oversight will create well-functioning MFIs.

Available literature offers almost no work on how monitoring frameworks could be facilitated, to ensure effectiveness and efficiency in the operations of the MFIs. Hence, limited paper available is written distinctively on the manner in which financial monitoring policies (FMPs) could impact the existence of MFIs (Nzaro, Njanike and Javarani 2013: 431).

It is thus necessary to explore the FMPs, in order to ascertain whether it is functional in the operational strategies of MFIs in Accra. The topic is justified, based on recommendations by Addae-Korankye (2012: 141), Balogun and Abraham (2012), Ojo (2013: 8), Nzaro *et al.* (2013: 431, 433), Sinclair (2012) and Founanou and Ratsimalahelo (2012: 64) emphasising supervision, monitoring and governance policies. The research is also encouraged by the fact that few literature particularly engages with the financial policy implementation and monitoring aspects of MF operations, from the point of national financial sector regulators and the MFIs.

Over the past decade, MFIs have become an important component of the broader financial sector in many countries. No longer is microfinance the domain of small NGOs that stand apart from the financial sector – increasingly, banks are competing with MFIs, while many MFIs have become banks themselves. MFIs provide a variety of financial services designed for poor clients, such as savings products, microcredit, payment services, and micro leasing remittances, as well as micro insurance, amongst others, and has emerged an important tool, with the use of new technology, policy reforms and financial innovation, across the world.

1.3 Problem statement

Demirguc-Kunt and Klapper (2012: 11) posit that financial exclusion in Sub-Saharan Africa (SSA) comprises approximately 76 percent of adults, which is well in excess of the global average of 50 percent, and that of high income economies at 11 percent (Demirguc-Kunt and Klapper, 2012: 11).

The role of MF as a tool for development therefore, cannot be overemphasised (Aveh, Krah and Dadzie 2013: 19). The MF sector has recorded significant growth in response to the credit market failure. According to Rao (2012: 294), the sector recorded an estimated patronage of over 130 million in 2012. Notwithstanding the impressive growth noted above, MFIs face numerous challenges, which may impede the ability to increase outreach and achieve poverty alleviation and financial inclusion objectives.

Kinde (2012: 2) states that the financial sustainability of MFIs is measured in two stages, firstly, operational sustainability, and secondly, financial self-sufficiency. Kimando, Kihoro and Njogu (2012: 40) conclude that the key factors impacting the financial sustainability of MFIs, in the Murang'a Municipality in Kenya, included the regulatory regime overseeing the institutions, the repayment rate of credit that was granted, the individual lending model used and geographical coverage.

MFIs in the Ghanaian market were found to become less sustainable, as the market became monopolistic (Richman and Fred, 2010: 14). The number of MFIs registered by the Bank of Ghana each year is increasing, as evident from the number of registered MFIs in Ghana (518), by October 2015; a huge increase on the 472 recorded in October 2014 and 394 captured in March 2014 (BoG 2014). Again, in spite of these increases, for 2015, the recorded number of institutions awaiting license approval from the national bank equaled 117, while there were an unaccounted number of unlicensed operators posing a regulatory and supervision threat. Appropriate regulation and supervision of financial service providers is therefore critically important, in bringing financial services they need and want, to poor and low-income people (Christen, Lauer, Lyman and Rosenberg 2011).

The obvious question remains as to how the Bank of Ghana (BoG) should regulate and supervise the financial system, as a whole, in a way that balances financial access, stability, and integrity, as well as consumer protection? Numerous, specific factors that may affect regulatory frameworks comprises: the relevant country context, including the existing, regulatory framework; retail providers' level of development; and the capacity and constraints of supervisors. Further factors include other political, economic, historical, and cultural issues.

According to Addae-Korankye (2012: 138), the high failure rate of MFIs in Ghana and the subsequent lack of institutional/legal policies, to trace and salvage savings the innocent poor make in MFIs, prompted the need for a study of the implementation of financial regulatory and monitoring policies, regarding MFIs operations. Ndambu (2011), along with many other authors, questions whether regulation will influence MF profitability and outreach, which are essential ingredients for sustainability. Nonetheless, Ghana's banking regulatory documents indicate a lack of both statistics and a supervisory framework for MFIs (BoG Notice No. BG/Gov/SEC/2011/04 2012; Dahir 2015: 56-62).

The intention of this study is to direct attention to the manner in which FMPs of MFIs could be facilitated to promote and influence the operations of MF practitioners, in order to ensure financial and banking discipline in the MF subsector.

1.4 Aim(s) of the research

To explore the factors working against effective implementation of FMPs for MF in Accra (Ghana) and to propose a model for the improvement and sustainable operation of the sector, through the establishment of causal links between FMPs and the present MF operation models.

1.5 Primary objective of the research

The research will examine the FMPs pertaining to MFIs in Ghana, the formulation and implementation by the MFIs and regulated monitoring of these policies, as well as the challenges in implementing FMPs for MFIs in Accra.

1.5.1 Secondary objectives

To achieve the cardinal objective, the study seeks to explore the following:

1. assessment and formulation of MFI FMPs of Ghana;
2. establishing how these policies are implemented and monitored;
3. evaluation of the problems faced in implementing of policies by the MFIs; and
4. to suggest steps that should be taken to improve monitoring and implementation of MF operations and regulations in Accra.

1.6 Research questions

The critical questions that underpin the research proposition are:

1. What financial regulations are available for MFIs in Ghana?
2. How can FMPs be effectively implemented by MFIs in Accra?
3. What problem(s) are encountered in the implementation of FMPs by MFIs?
4. What mechanisms are currently used to facilitate the implementation of the FMP for MFIs?

5. What other mechanisms are available for close monitoring and facilitation of the FMPs for MFIs?

1.7 Rationale of the study

The reason for conducting this research is to contribute to the body of existing knowledge, on problems pertaining to MFIs regulation and policy implementation, particularly in Ghana. The study will be very useful to all the institutional stakeholders in the MF subsector in Ghana; it will serve as a guide to decision-making, as well as prompt management to have a broader view of all the risks pertaining to MF operations.

The study intends to enable MFIs to adopt pragmatic strategies that embed all facets of the financial regulations purported to maintain sanity of the broad financial sector and therefore, ensure their sustainability and growth. To this end, the study introduces implementation theory to the arena of MF research and proposes a composite model for FMP formulation and effective implementation. Rahman and Luo (2012: 1019; 1029) quote CGAP (2010) citing Ghana, together with Indonesia and the Philippines, where many MFIs fail to fulfill the regulatory requirements.

This research explored available literature on MF regulations and problems of implementation and the outcome underlines the need to engage in a study of this nature. Ultimately, it is certain that the results of this study will contribute to curtailing the rampant closure of the many MFIs in Ghana, as well as ensure a healthy financial environment, characterised by trust from the teeming clientele and prospective external investors.

The contribution aims to enhance the operations of MFIs, improve compliance with financial regulations to ensure sanctity, sanity, and commitment, while also promoting sustainable growth in the MF sector in Ghana.

1.8 Scope of the study

This study was confined to five metropolitan areas: Accra Metropolitan, Adenta Municipal, La-Nkwantanang, Ga East Municipal and Ga West Municipal in the Greater Accra region in the Republic of Ghana only. The outcome cannot, therefore, simply be generalised, diverse as MF operational strategies are.

The focal point of this study is on the implementation of financial regulations and challenges besetting the sector, resulting in the closure of many MFIs. Other challenges, apart from FMPs or regulations, are outside the purview of this study. However, there might be several other challenges, such as risk appetite, training and development strategies and financial management, as well as other MF peculiar areas, which need to be intensively explored.

The complexity of the MF sector and difficulty in delineating MF activities, coupled with the practice and competition from the conventional banks, demand that future researchers need to assess the MF market.

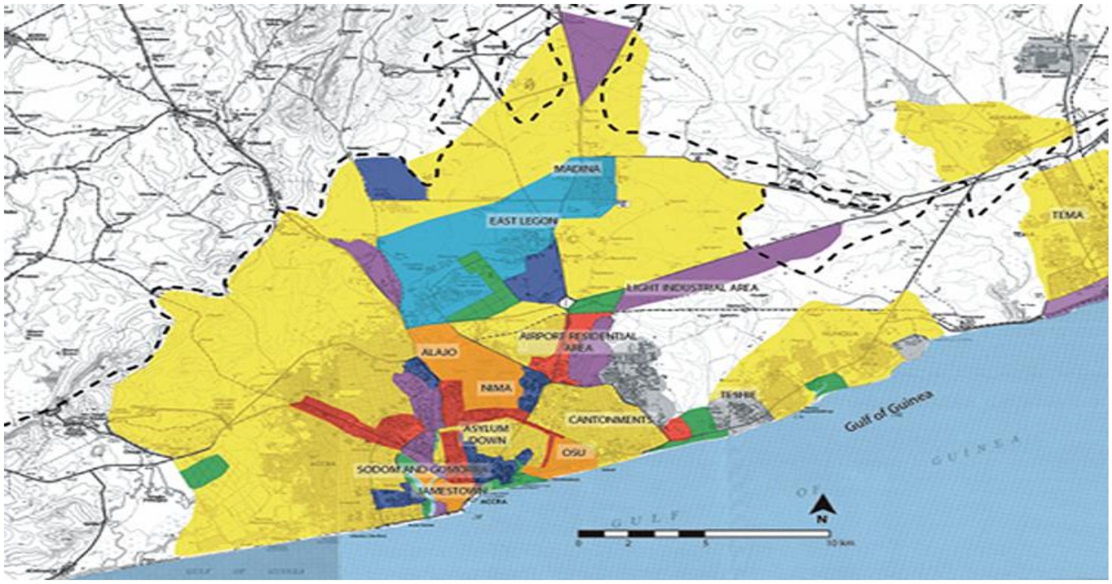


Figure 1.1: Map of Accra (Ghana) - the study area

Source: Google - District Maps (Accra)

1.9 Limitations

The corrupt practices that bedevilled the MF sector and the investigative journalism practices of Anas Aremeyaw Anas, an investigative journalist, which is shaking all institutions, is a perceived critical factor that might largely limit the willingness of institution management to release data. Coupled with this is the fact that the Bank of Ghana (BoG) supervisory team is engaged in cleaning up the financial system, leading to suspension of certificates of many MFIs that could not meet certain regulatory criteria, within a predetermined period. Practitioners might misconstrue academic data collection, as a way of and possibly party to, the move of the BoG to identify and punish institutions that fall short of meeting certain financial regulations. This culminates in the fear that data collected might be used for purposes other than intended for.

Finally, the misconception that, completing questionnaires is a waste of time is a restricting factor. Despite these hindrances, the researcher took adequate time to establish contacts with a great number of institutions prior to data collection; two undergraduates were also briefed on the questionnaire, in order to educate the MFIs on the need for this research and respondents were given adequate time to read the questionnaire, complete it and an appointment for later collection was made. This helped to promote trust and a good relationship between the researcher and his team and the responding institutions.

Anonymity assurance and the use of personally administered questionnaires were adopted to allay some of these fears. In addition, a letter of information and consent was used to solicit the interest of respondents prior to administration of the questionnaire, to boost participants' willingness to assist in this study. Also, an Ethical clearance obtained from DUT for the purpose of the authentic of the research identity and of the research. Nonetheless, doubts remained, which restricted openness to reveal some information regarded as sensitive. These might create much difficulty in obtaining a good representative sample.

1.10 Research Methodology

This section provides the design this research will pursue to achieve the research objectives. The research design outlines how the researcher intends to answer the research question (Nylander and Renbergy 2014), as the main function of research design is to enable the researcher to plan an appropriate research process that should maximise the validity of the eventual results. In this study, a literature review of recent, relevant literature regarding the evolution, sustainability and regulation of MF was conducted. A survey was employed, using the five point Likert scale, structured questionnaire, with some open-ended questions that provided respondents an opportunity to express their views on certain issues.

The questionnaire typically addressed issues from the review of relevant literature, regarding the research topic. The questions were designed to gain knowledge on the relevant facts pertaining to the financial regulation implementation and difficulties faced by MFIs in Accra; all the relevant questions, required to obtain data on the topic of this study are included.

The population was limited to MFIs operating in the Greater Accra region, which is the second most populous region in Ghana, with just over four million people (4 010 054 people), representing 16.3 percent of Ghana's population: Ghana Statistical Service (GSS) (2012). It is not possible to identify whether an ideal sample size is good or bad (CGAP 2012), which means the research must, instead, consider the purpose and goals of the study.

With this in mind, 65 institutional respondents, in the Greater Accra region were chosen to respond to the questionnaire. These institutions are located in the most populated municipalities that house the majority of the MFIs. The reason for this size is due to the fact that there are only 518 MFIs of various categories in Ghana and 83 in Accra, as at October 2015 (BoG 2015). The sample represents 12.6% in Ghana and 78.3% in Accra.

Notwithstanding this number, consideration was given to the fact that the Greater Accra region has the second largest population in Ghana and therefore, houses most of the prominent MFIs in the country; most MFIs in the other regions have branches in the Greater Accra region as well. The research adopted a non-probability, purposive sampling method for convenience of contacting key management of the MFIs to interview for the study.

In order to obtain standardised data, the researcher concurrently conducted a familiarisation session with the institutions and pilot survey, after which the questionnaires were distributed and time set for collection. This informed the structure of the questionnaire and ensured that some external effects are eliminated. The information obtained was captured using SPSS 24.0. content validity was established by matching the research findings to the set objectives of the study.

1.11 Outline of the Research

The presentation of the research will be organised into six chapters:

- **Chapter one: Introduction**

This chapter deals with the background, problem statement, research objective(s) and research questions, as well as the scope and limitations, and the research framework. It introduces the reader to the intentions of the study and guides them through the intended outcome of the entire study.

- **Chapter two: Theoretical and conceptual framework for MF**

This chapter deals with theories relevant to this study. It proffers vivid description of the selected theories and relates such to the concept of MF. The chapter also deals with the construct which puts the entire study in shape.

- **Chapter three: Literature review**

A review of relevant literature on the theme is offered in this chapter, touching on the definition of MF, characteristics of MFIs, governance, operational models, FMPs, as well as implementation and problems of facilitation. Scholarly articles and journals were used to provide evidence of work done by others in this research area. This chapter will deal with literature on the main objective of this research and set out the tone for chapter four, which will explore methods for gathering and analysis and discussion of data.

- **Chapter four: Research methodology**

This sets out the approach/design that this research seeks to adopt in gathering data, as well as analysing and presenting findings and will define quantitative and qualitative research, the methods of data gathering, and tools to be used, along with the research population and sample selection techniques, in addition to the intended analytical tool to be used in analysing data collected. This chapter will also consider validity and reliability statements regarding this research.

In this study, open-ended questions were to probe and understand the research problem for qualitative analysis and confirmation of quantitative data; that is, to understand the relevant factors that might contribute to the problems of MFIs, in implementing the regulatory policies available to them. The research adopted a mixed research design and this chapter explains the meaning and underlying assumptions of qualitative and quantitative research. The quantitative data will be used to establish relationships and test statistical data, while the qualitative data will offer the descriptions that underscore MFIs attitudes and failures.

- **Chapter five**: **Statement of findings, Analysis and Interpretation of primary data**

This chapter will encompass the analysis of data collected, into a form to which the reader can assign some meaning; it will consider categories based on themes and make exhaustive descriptions and constructions of the phenomenon.

- **Chapter six**: **Discussion of the findings of primary data**

This chapter draws inferences from chapter five and from literature. It offers interpretation of the statistical analysis presented in chapter five and underscores the relevance and the importance of the study.

- **Chapter seven**: **Conclusion and recommendations**

This final chapter will set out the conclusions drawn from the discussions in chapters five and six and make recommendations, as well as propose areas for future research.

1.12 Conclusion

This chapter discussed the background of the study, the research problem, and objectives of the study, as well as delimitations and limitations. An outline of the chapters was also presented. In the following chapter, the literature review presents definitions of MF and MFIs and their characteristics, governance of MFIs, regulation and the need for monitoring and supervision, including the challenges facing MFIs.

CHAPTER TWO

THEORETICAL AND CONCEPTUAL FRAMEWORKS

2.1 Introduction

This chapter explores some theories relating MFIs to social entrepreneurship, policy formulation, and policy implementation in MF, with MFIs as financial intermediary and agency that underscore the study and conceptualises a policy ownership and implementation framework for MFIs that will guide the entire study. It also highlights a model that entails key concepts and peculiar environments or factors that will enhance MF policy adoption and implementation to forestall infractions. A brief conclusion to draw in the remaining literature is presented.

2.2 Theoretical framework on MF policy formulation, implementation, financial intermediary and agency theories

A framework is the structure that logically puts all functionaries in place. According to theorists Kuratko, Morris and Schindehutte (2015a: 2), a framework (policy) provides the manager the finest guidance that converts pensiveness into reality and allows identification of relationships and prioritisation of variables. That is, framework in research provides the baseline information or the fundamental idea on which the researcher wants to build his current findings or underscores his quest to research a particular problem. It provides the scholar with the foundation upon which to hypothesise, develop models, and build and test theory (Kuratko *et al.* 2015a: 3; 4). This study therefore regards policy formulation, implementation, and financial intermediary and agency theories, as blending factors that will shape the entire study; especially where financial policy implementation in MFIs is concerned. These relevant theories are explored in this section to inform the conceptual model the study seeks to adopt.

2.2.1 Microfinance as social entrepreneurship

Entrepreneurship theory has a long-trailing history dating back to its evolvement from Schumpeter's theory of entrepreneurship when an entrepreneur is regarded as a producer (Santos 2012: 337). Santos opined that the classic Schumpeterian theory of entrepreneurship focuses more on the process than outputs of entrepreneurial ventures (Santos 2012: 337), hence entrepreneurs are variably treated as synonymous to business managers (Kuratko, Hornsby and Hayton 2015b: 245; 248) or simply owners. This study sees MFI entrepreneurship as interdisciplinary, relating innovation, competitiveness, productivity, wealth generation, job creation and creation of new industry (Kuratko *et al.* 2015b: 247); characteristics that define MF as social entrepreneurship.

One entrepreneurship model that has assumed broad discussion is 'Social entrepreneurship'. Kumar and Gupta (2013: 68) define social entrepreneurship as:

> *'a process that brings social change or addresses important social needs. Social entrepreneurship is seen as differing from other forms of enterprise where a high priority is given to promote social value and development rather than making financial profits and gains'.*

Kumar and Gupta conclude that social entrepreneurs are agents of change in emerging economies; the social entrepreneur, such as MFIs, applies innovative and cost-effective methods of addressing social problems, including poverty, gender inequality and financial empowerment (Kumar and Gupta 2013: 68). Consistent with the authors, Rahim and Mohtar (2015: 11) considers a social entrepreneur as an 'entrepreneur [who] is an innovator that creates and exploits opportunity, consequently creating value and change towards the economy and society goals’. The authors indicate that social enterprises, including MFIs, are hybrid organisations that have both financial objectives and a social agenda (Rahim and Mohtar 2015: 11).

These assertions are a good fit for a poverty reduction MF model, as well as for a commercial venture; as most studies aver (Kipesha and Zhang 2013: 137; Addae-Korankye 2012: 135, 138; Sowmyan *et al.* 2011). Nonetheless, Rahim and Mohtar (2015: 11; 12), highlight the confusion resulting from the definitions and understanding of social entrepreneur. In the author’s view, MFIs as social entrepreneurs are only harbingers of change (Abhi, Venugopal and Shastri 2015) providing community value (Rahim and Mohtar 2015: 12).

An interesting answer is proposed by Santos’ (2012: 337) positive theory of social entrepreneurship to this quandary. Consequent to the broad conceptualisation of value, Santos’s theory draws on the concepts of value creating and value-capturing (Rahim and Mohtar 2015: 12), proposing a blurring of the boundary between ‘social’ and ‘commercial’ outputs (Santos 2012: 337) that fueled the mission drift criticism of the MFIs. The theorist distinguishes between value-creating and value-capturing actions on the basis of whether the welfare of the society increases after the MFIs account for resources used. To Santos, the true determinant of MF as social entrepreneurship is the increase in its utility to the society; measurable in financial or non-monetary terms (Santos 2012: 338).

Judging from the discussion so far, it then becomes difficult to really understand whether MF operators are not only value-capturing but also value-creating. Because understanding the contemporary issues confronting the sector, including lack of appropriate regulation, non-compliance or poor implementation of such regulations, makes MFIs controversial (Bateman 2015a), it is evident that the entire shift to a value-creating agenda ’motivates’ MFIs to bend the rules and hence operate outside the legal boundaries (Sinclair 2012; Kinde 2012: 2).

However, Santos (2012: 339) argues that the environment determines social needs and creates opportunities, which the MF entrepreneurs pursue; and thus the same environment determines the legal recognition and the legal form of MFIs that evolve. This means that MF, like any other social enterprise, is shaped and directed by the environment (Santos 2012: 335). This assertion confirms the innovativeness that characterises MF products to satisfy specific needs of clients in a particular milieu. The assertion also directly proposes consideration of the specific operational environment of MFIs when crafting their specific sector regulatory guidelines to promote its implementation.

Other scholars (Rivera-Santos, Rufín and Kolk 2012: 1722; 1723; Montgomery, Dacin and Dacin 2012: 377) echo Santos and conclude that legal form drives the characteristics of formal and informal institutions. Based on these premises, Santos (2012: 335) concludes that “social entrepreneurship is the pursuit of sustainable solutions to neglected problems with positive externalities”.

Cieslik, Hudon and Verwimp (2015) reviewed that the activities of all social enterprises, such as MFIs, follow the organisational theory, characterised by rule-breaking, as the central component of the entrepreneurial process. In the authors’ viewpoint, it is evident policy implementation in the MF sector will be a challenge, requiring extra attention to overcome.

The element of rule-breaking is strongly present in social entrepreneur literature, which cites MF as one of a myriad of social enterprise interventions. According to Guérin, Roesch, Venkatasubramanian and D’Espallier (2012: 122, 133), most MF activities, strategies and investments are not permissible by the regulations of a given MF programme or tier. The authors therefore, conclude that MF activities regarding investment, loan administration and arrogation are illegitimate (Guérin *et al.* 2012: 128), with new entrants to the market typically ignoring credit delivery regulations and technologies successfully implemented by MFIs in the past (Ogbulu, Uruakpa and Umezinwa 2015: 78). In this regard, Ogbolu *et al.* (2015: 79, 80) argue that loan officers frequently bend or choose not to adopt and implement sectoral and institutional regulations just to address client needs and obviously, for selfish whims.

MF, therefore, forms an extremely diverse sector of activity. A composite financial sector regulation or solution is thus neither possible nor desirable in their particular milieu (Ogbulu *et al.* 2015: 79; 80). This is particularly true in markets where intense competition leads many low-income borrowers to take out multiple loans (aspiration paradox), the size of which do not fit their needs nor their repayment capacity (Ogbulu *et al.* 2015: 82).

On the contrary, Guérin *et al.* find that rule-breaking significantly correlates with the possibility of new venture creation (Guérin *et al.* 2012: 134). Cieslik *et al.* (2015) are of similar view as Guérin *et al.,* as they emphasise that MF bypasses institutional rules but conclude that their illicit practices are value-creating (Santos 2012: 336), entrepreneurship acts. Thus, non-compliance with MF operating guidelines is indicative of an emergent MFIs' social entrepreneurial course (Cieslik *et al.* 2015). Hence, these informal and illegitimate activities of MFIs thrive where there are weak institutions and weak regulations, where poor implementation and corruption prevails (Zahra, Pati and Zhao 2013); and where there is a lack of monitoring and supervision.

Characteristics of MFIs as social enterprise

Based on the foregoing literature, MFIs compare to other social enterprises as follows:

Table 2.1: Characteristics of MF as a social enterprise

Characteristics	Social enterprise (SE)	Microfinance as SE
Mission/social aims	1. Exists for social and economic needs. 2. Often reach out and include people bypassed by traditional business support programmes; delivering a service that public services have "outsourced". 3. An explicit aim to benefit the community.	1. Social and economic needs and creation of economic opportunities. 2. MFIs often reach out and include people bypassed by traditional banking support programmes; serving the financially disadvantaged.
Funding	1. Donations and grants. 2. Seeks cost recovery. 3. Uses a combination of funding to operate, from grants to sponsorship and free trading for example. 4. A significant level of economic risk	1. Weaning from donations and grants and of late equity funding. 2. Generate much of their income from loans to achieve financial self-sufficiency. 3. Applies full cost recovery. 4. Characterised by high level of economic risk and to information asymmetry.
Type	Social ventures to empower and transform the society. Directed towards poverty alleviation to empower and transform society.	The new for self-sustainability and commercialisation makes the MFIs new venture addressing social aims with profit motive.
Clientele	1. For local communities CSFI (2011). 2. A participatory nature, which involves the persons affected by the activity	1. The hardcore poor and financially secluded in society. 2. Advent of commercialisation relocates them to the big towns and cities.
Growth	1. Evolves in an incremental fashion. 2. Each stage of growth ends with a new challenge, usually market failure or management problems. 3. The situation is solved by a revolution. 4. A continuous activity producing goods and/or services**.**	1. Evolves in an incremental fashion. 2. Evolves how the organisation is run and this initiates a period of renewal. 3. A continuous activity producing goods and/or services
Challenges	1. Managing the tension between profitability and social goals. Understanding the nature of social ownership. 2. Knowing the processes through which social enterprises develop and being clear about the roles of different players within social enterprises at different points in their development	1. Poor quality of management. 2. Undercapitalisation. 3. Changing regulatory control. 4. Information asymmetry and fraudulent practices. 5. Inadequate infrastructure. 6. Institutional inadequacies. 7. Problem of incomplete contract (Ojo 2013: 6).

Table 2.1 *cont'd*

Ownership/ A high degree of autonomy	Autonomous of the state. Owned by community or users.	Private ownership involves and governance structure is determined by ownership
Profit reinvested (Asset lock)	1. Pursue social interest and income is invested in the community. 2. Use entrepreneurial skills of the private sector to fulfil a strong social mission. 3. Income matches expenditure, as any surplus or profit made is re-invested into the company.	1. More of the profit is reinvested. 2. Limited profit distribution 3. Equity based institutions share rest of profit. 4. Use entrepreneurial skills of the private sector to fulfill a strong social mission.
Governance	1. Managed in the interest of the community. 2. Decision-making power not based on trustee/ community. 3. The governance and structure of the organisation is based on equal participation by the workforce and stakeholders rather than fulfilling shareholders' demands.	1. Determined by ownership structure. 2. Owner dominance in decision-making prevalent in private ownership. 3. Decision-making power not based on capital ownership
Accountability	1. To the users and community. 2. Accountability is a continuous process in the form of regular assessment and evaluation of the project or organisation due to public funding.	1. Depends on the ownership structure. 2. Users are evidence of accountability and transparency.

Note: Summary of Social enterprise theory discussed in this chapter.

2.2.2 Policy formulation theory and MF

A detailed review of literature indicates that policy formulation occurs at two levels: problem identification and definition, which Embrett and Randall (2014: 148) refer to as the agenda setting stage and actual formulation; including decision-making and implementation and evaluation stages. This description of the policy-making process adopted a linear approach resulting in criticisms from Embrett and Randall, who intimate that policy processes are, instead, random and erratic (Embrett and Randall 2014: 148). The linear approach follows the top-down implementation model, evidenced by the central banks in most countries, having overarching supervisory control over the financial institutions; MFIs in particular. However, Embrett and Randal agree that framing the problem can, in itself, advance some policy solutions.

The complexity theory of policy formulation (Hallsworth and Rutter 2011: 18; Cairney 2012: 3) shows it should be regarded as a system comprised of a network of elements that produce a more combined effect than the results of its constituents. In this regards, policy for MF orientation must involve all stakeholders, essentially the MFIs themselves, by collaboration in developing infrastructure that MFIs can adopt and implement, based on their particular dispositions.

Hallsworth and Rutter (2011: 18) conclude that ‘greater awareness of complexity encourages more informal inquiry’ to understand how the policy is being realised, than monitoring performance. The assertion indicates that all actors in policy implementation also matter in its formulation, rather than the centrally-crafted, linear approach that is often a poor fit for the needs of end implementers (Pritchett, Woolcock and Andrews 2012); the MFIs. By implication, any guideline or policy meant for regulating MF activity must involve the MFIs in its formulation; hence, the voice of the implementer matters. According to the authors, a sound policy must involve the users, as this will ensure systems and modalities are adequately secured to enable

MFIs to internalise policy requirements and embed these in daily operational strategies.

Policy formulation is summarised (Hallsworth and Rutter 2011: 18; Cairney 2012: 3) as occurring in stages, culminating in policy cycles. Therefore, policymaking involves many ideas interacting in a non-linear fashion (Smith and Katikireddi 2012); drawing cooperation from policymakers to ensure that those interactions (Geyer 2012: 3; 4 and 7) can produce new ideas (Pritchett *et al.* 2012) and ways of thinking.

The complex activities of MF correlate with Little (2012: 16) and Geyer's (2012: 4) proposition that working with complex systems encourage subsystems within organisations to communicate with each other, and provide implementing organisations the freedom to manage. The authors' view affirms that a financial system, as broad as it is, makes it imperative for MFIs to be firmly represented in any decision regarding their operation; especially firm representation by umbrella institutions, such as the GAMC. According to Santos (2012), it is at this stage that the agency problem (Song, Wang and Cavusgil 2015) and internalisation and outfitting of policy tenets by the implementers, the MFIs, can take place.

Pritchett *et al.* (2012) conclude, from their survey on policy implementation, and indicate that implementation problems occur when new, impressive laws are less clear and not related to the current issues and expectations of implementers. These currents issues, as stated by Pritchett *et al.* (2012), are well known to MFIs that deal directly with MF clients and will be in a position to proffer such information to enhance any policy guideline pertaining to their operations. The Lipsky's 'street-level bureaucrats' assertion (1980) is therefore a great influence (May 2013).

Indeed, the frequent review of operating guidelines for Ghanaian MFIs that result in raising their minimum capital requirement (BoG 2015) sounds impressive in sanitising the sector but does not involve the input of the MFIs. The implication is that MFIs will find it difficult to implement such decisions. Hill and Hupe (2015), Hupe (2014), Winter (2012) and May (2014: 4) point out the reasons for implementation failure or policy failure. May (2014) identifies lack of capacity and commitment of intermediaries, as do Hill and Hupe (2015). This assertion is confirmed by Boateng and Boateng (2014: 11-14) and Addae-Korankye (2012: 136; 138) and is very true of MFIs in Ghana.

In their view, Hill and Hupe (2015) spell out failure to overcome features of basic conflicts among the actors, the BoG and the MFIs in this instance, who carry out the policies. Winter (2012), however, espouses that when implementation is limited to key attributes of policies, such as capital requirement for MFIs, involves complex chains of implementation actions, indirect control and unsupportive political environments (as in the case of Ghana where politics has permeated every government social intervention programme relating to poverty alleviation, such as the Microfinance and Small Loans Centre - MASLOC).

May (2014: 6) further emphasises policy incoherence, as this creates ambiguity and sends out confusing signals to targets (the MFIs), causing fragmentation and is in contravention of policy tenets, which might become the norm of doing business (Cieslik *et al.* 2015; Zahra *et al.* 2013). This confirms Santos' assertion that the environment shapes social enterprises (Santos 2012: 338), such as MFIs. As the operating demands of MFIs change, so central banks review the banking guidelines regarding MF (BoG 2011; 2012; 2014; 2015). Santos (2012) also points out the influence of policy regime, which can be linked to the political environment and durability.

May (2014: 6; 11) emphasises that, the longer there is political commitment to the policy evolution and strengthening of administrative arrangements, with consistency, in keeping the cardinal commitments in place (Hill and Hupe 2015), the more success and durability are assured. Indeed, political elements cannot be avoided should MFIs comply with the financial regulations; the missing element is how involved the MFIs are in the making of policy that regulate them and what is their disposition to the implementation of these policies (Pritchett *et al.* 2012; Smith and Katikireddi 2012).

2.2.3 Implementation theory and MF policy

Implementation is explained as a stage in the policy cycle (Smith and Katikiredi 2012) of formulation-implementation-reformulation (May 2013: 1-14). It is the carrying out of a basic policy decision (May 2013: 4; Gong and Janssen 2012; Nilsen, Ståhl, Roback and Cairney 2013: 5), usually incorporated in a statute or in an authoritative decision (Gong and Janssen 2012). Gong and Janssen (2012) further state that implementation can also take the form of important executive orders or court decisions. Implementation literally means carrying out, accomplishing, fulfilling, producing or completing a given task. In other words, policy implementation refers to the activities carried out in the light of established policies, the process of converting financial, material, technical and human inputs into outputs (Cairney 2012: 4). This involves a wide variety of actions, such as issuing and enforcing directives, disbursing funds, making loans, and assigning and hiring personnel (Cairney 2012: 5).

MFIs therefore, follow the banking guidelines regarding their activities to the letter. These guidelines include issues on formation, ownership, capital requirements and the like (BoG 2011; 2013), which dictate what the MFIs must do to maintain a healthy financial sector. It is viewed as a process of interaction between the setting of goals and the actions geared to achieving them (Gong and Janssen 2012). According to this explanation, there is an authoritative decision at the starting point of any implementation process, such as the central banks in most countries, where the national bank plays a dual role.

The implication is that achieving the desired effects rests on relevant, centrally located actors or central banks that exact action from individual MFIs (Nilsen *et al.* 2013: 4). These may, in the Ghanaian context, be comprised of Savings and Loans Companies (SLCs), MFIs, Moneylenders, and Susu companies. Other authors define implementation as the administration of policies, in which various actors, organisations, procedures, and techniques work together to put adopted policies into effect, in an effort to attain policy or programme goals (Gong and Janssen 2012).

According to Nilsen *et al.* (2013), law or policy implementation is, however, a vertical and type of direction-setting process, as these types of processes are "concerned with strategy formulation and policy deployment" (Nilsen *et al.* 2013: 7). Other definitions state *inter alia* that agencies comply with the directives of the statues (Gong and Janssen 2012); agencies are held accountable for reaching specific indicators of success (Little 2012: 8); goals of the statute are achieved (Geyer 2012: 13); and local goals are achieved, or there is an improvement in the political climate around the programme (Gong and Janssen 2012).

The question paramount to determining the most appropriate definition, hinges on which side weighs greater: the values of the policymaker, that is the central bank (Bank of Ghana); or the values of the local implementers, namely the MFIs? The exact value will determine effective implementation of financial policies regulating the MFIs in Ghana.

An evaluation of the policy implementation literature generally indicates two major schools of thought: the top-down and bottom-up views (Nilsen *et al.* 2013: 7). The top-down school of thought sees policymakers as the fundamental actors that concentrate their interest on controllable factors (Nilsen 2015: 3) at the central level. In their description, Nilsen *et al.* (2013: 7) and May (2013: 11) indicate that top-down policymakers make policy goals clear and consistent, as with the central bank's banking guidelines, place implementation tasks (Gong and Janssen 2012) in MFIs sympathetic with the policy's goals, and then limit the extent of change that might be necessary. This might as well promote weak implementation and lack of monitoring and supervision, since the disposition and specific environment of the MFIs are not considered in the policy formation and formulation process.

Quoting Paul Sabatier’s rational-technical description of the top-down approach, May (2014: 18) indicates that the implementation process engages passage of basic status, decisions of implementing agencies (the central bank), compliance of the MFIs, and the perceived impact of agency decision, as well as important revision. This explains the unending cyclical nature of any implementation process. As such, May (2014: 3) recaptures Sabatier’s view of technical problems of control over the internality (outcomes) and externality (impact) of any policy. The author reiterates tractability, resource availability, diversity of the target group, and structuring of the implementation process, in addition to non-statutory variables, including attitude and resources of the constituent groups, as well as commitment of the implementing officials (May 2014: 8), as relevant pillars on which the model stands.

Those scorecards make policy static, while the MF environment within which implementation takes place is constantly changing. The tractability of MFIs as social enterprise is in question, as per the rule-breaking scenario emphasised by Guérin *et al.* (2012: 127); moreover, the sector is be well-diversified yet lacks structure. Successful implementation of the top-down approach by MFIs, therefore, hinges on the degree to which the actions of the central bank and the MFIs coincide with the objectives embodied in the authoritative policy (Gong and Janssen 2012), crafted by the centrally controlled unit (Nilsen *et al.* 2013: 7); the central bank. This will, in fact, pose a mammoth challenge, due to information asymmetry that results in goal incongruence (Song *et al.* 2015; Puyvelde, Caers, Du Bois and Jegers 2012: 429; 433), which characterises the agency role carried by the MFIs.

May (2014: 1-23) again refers to Weimer and Vining's 2005 hierarchy-market model as a mechanism of policy implementation and underscores the market mechanism as 'collective action that arises from voluntary agreement' among MFIs. The author opines that the market mechanism capitalises on the rationality of the MFIs, in making choices that will only maximise their utility; the disposition of the MFIs, regarding any new financial regulation for MFIs, is therefore relevant for effective implementation. Failure to consider this will be nothing short of confirming the rule-breaking assertion (Guérin *et al.* 2012: 122-137). May's contention correlates with complexity theory, where role players' intentions or desires deserve maximum consideration in policy-making (Cairney 2012: 11), to reduce selectivity and existence of coercive power (Gong and Janssen 2012) in the implementation process.

This proclamation is relevant to MFIs, due to their specific nature, although the market mechanism, which is void of adequate control, may be counted as an element promoting failure in the implementation of MF sector regulations and operating guidelines. May further notes that Weimer and Vining's model of hierarchy relates to the top-down view, where legitimacy and use of coercive power, with a high level of prescription, is prevalent (May 2014: 3; Gong and Janssen 2012). The theory of the mind (ToM) of the agent (Foss and Stea 2014: 101; 106) forms the shadow of this conception of policy implementation; nonetheless, MFIs lack management acumen (Addae-Korankye 2012: 141; Boateng and Boateng 2014: 2) to execute the guidelines to the letter.

Inbetween these two mechanisms, May (2014) refers to professional power as a third logic in policy implementation tools, in contemporary times. The author indicates that professionalism fits together to form a whole that differs systematically from the hierarchy-market assertion. Professionalism, in this context, is based on specialised bodies' knowledge and skills that have no coercive power of their own but only what may be delegated to it. Thus, professionals gain their legitimate status by projects of successful persuasion (May 2014: 10). This very logic in policy implementation is lacking in MFIs as, according to Addae-Korankye (2012: 139), the management of most MFIs are unqualified.

The interpretive, democratic, bottom-up model mentions Michael Lipsky as a forerunner of the ‘street-bureaucracy’ model, as dovetailed by May (2013: 4). The author explains that Lipsky’s street-level bureaucracy model of 1980 launched the crusade of addressing the shortcomings of the prescriptive or normative top-down model of policy implementation, which MFIs are subjected to. According to May (2013), Lipsky’s model asserts that policies are made from daily encounters of street-level workers, termed ‘the street-level bureaucrats’, which is a feature of the MF sector. The assertion confirms complexity theory and the understanding of it can be attributed to the MF sector, which actors (MFIs) carry out the policies (the banking guidelines of the central bank pertaining to MFIs) and face the uncertainties (Nilsen *et al.* 2013: 6) the policies impose.

The model, as captured by Nilsen *et al.* (2013: 7), espouses the conflict and ambiguities faced by the frontline implementers, in this case the MFIs. The authors opine that inadequate resources, according to the resource-based theory (Warnier Weppe and Lecocq 2013: 1366; Gong and Janssen 2012), unpredictable less clear guidelines, uncooperative oversight official (the central bank - BoG) and skeptical clients (MFIs) degenerate information asymmetry (Song *et al.* 2015; Puyvelde *et al.* 2012: 431) of the agency theory. Nilsen *et al.* (2013: 4) further explain that the uncertainties, conflict and inadequacies MFIs face in their daily operations force them to derive coping or survival strategies, even should it involve breaking the rules (Sinclair 2012; Kinde 2012: 2; Cieslik *et al.* 2015; Guérin *et al.* 2012: 133), in order to deal with the unaccommodating, centrally formulated policies and specifications.

Bottom-up theorists (Geyer 2012: 3-19; and Little 2012: 6) emphasise target groups and service deliverers, arguing that good policy is really made at the local level. May (2013: 8) states that local service deliverers, the MFIs, have the expertise and knowledge of the true problems; therefore, they are in a better position to propose purposeful policy. This confirms the assertions of 'bottom-uppers' that policymaking should rather be incremental (Smith and Katikireddi 2012) from the broad level of the pyramid, which will ensure much detailed identification of all actors and their concerns in the overall policy.

Gong and Janssen (2012) quote Berman's view to imply that the implementing environment can entirely dominate rules created at the top of the implementing pyramid, and policymakers will be unable to control the process. Faced with these conditions, according to the bottom-up view, if local level implementers, the MFIs, are not given the freedom to adapt and operationalise the policies to local conditions (May 2014: 9; Little 2012: 16), policy implementation is likely to fail. This further confirms the rule-breaking assertion of Guérin *et al.* (2012: 123; 127).

The multi-tier policies for the MF sector in Ghana, and other developing countries across the globe, create the demarcation and promote the power of industry practitioners to exercise their discretion, resulting in substantial deviations (Boateng and Boateng 2014: 13). Accordingly, Lipsky's model, as referred to by May (2014: 7 and drawing from complexity theory (Cairney 2012: 3), fails to explain the level of control that must be maintained over the MFIs, in order to realise policy objectives.

Quoting Martin Rein (1983), Smith and Katikireddi (2012) re-emphasise the need for conflict in the implementation process. The authors agree to the three instances of legal view, rationality and consensuality and compromise among the guideline developers (BoG in this case), the interest groups (Security and Exchange Commission (SEC), MoFEP and Apex Bodies) and the policy implementers (the MFIs and other NBFIs). To link this to the implementation process, it is imperative to note that implementation is not only part of power but also of a conflict resolution process.

According to complexity theory, there is a network of actors and this network will work well in the environment of negotiation, information sharing, power reciprocity and central preferences (Hallsworth and Rutter 2011: 18; Cairney 2012: 3; 4). Thus, the MFIs, as actors in Lipsky's model, are assumed ignorant of what is expected of them, when the policy is full of ambiguity. Given the inadequacies of resources (capital inadequacy as a problem limiting the outreach and sustainability of MFIs) (Warue 2012: 4; Kipesha and Zhang 2013) and lack of knowledge and skills of MFIs' management (Boateng and Boateng 2014: 3), policy implementation therefore, occurs in a complex arena and shifts decision-making to Lipsky's 'street-level bureaucrats' (May 2013: 7; Cairney 2012: 1-14). Consequently, Guérin *et al.'s* (2012: 128) findings are justified.

Using the 'street-level bureaucrat' model as a baseline, May (2013: 7) lists Richard Elmore's 1993 organisational model and espouses how policies devolve and assume deeper meaning, as they are translated into administrative tasks (Smith and Katikireddi 2012) at the bottom of the pyramid (Geyer 2012: 9; Little 2012: 11; May 2013: 6; Smith and Katikireddi 2012), which represents the MFIs. Wilkinson and Frost (2015: 685; 686) and Squires, Sullivan, Eccles, Worswick and Grimshaw (2014) explain that organisations charged to implement policies do modify, simplify and re-orient these policies to suit their internal structure and conventional operational procedures (Smith and Katikireddi 2012; May 2014: 15; Little 2012: 9).

By doing so, policy outcomes may diffuse and lose meaning and this might, intentionally or unintentionally, create deviations from policy implementation (Wilkinson and Frost 2015: 685; 686) by the MFIs. This is why effective monitoring will promote adherence to FMPs for MFIs.

Successful implementation, according to Richards, Reynolds and Dillard (2016: 2), requires accountability through reporting guidelines. How much of such reporting and the content thereof is relevant to compliance and implementation? Policy implementation occurs at two levels (Embrett and Randall 2014: 148): at macro-implementation level, where centrally located actors (policymakers) craft the policy; and at micro-implementation level, where local organisations (MFIs) react to macro-level plans, embed these plans in their local operational plans, and implement them.

The theory indicates that most implementation problems stem from the interaction of a policy with the lower level institutional setting (Little 2012: 16; Geyer 2012: 32). The bottom-up school of thought argues that the goals, strategies, activities, and the disposition regarding the guidelines for MFIs involved in the micro-implementation process (Smith and Katikireddi 2012) must be understood, in order to understand implementation. The inference, from this view, is that financial policy directly affects clients at the micro level occupied by MFIs because implementation arises from the interaction of policy and setting (Cairney 2012: 6; Smith and Katikireddi 2012).

Success, therefore, depends to a large extent on the skills of individuals in the local implementation structure, the MFIs, who can adapt policy to local conditions (Geyer 2012: 32; Smith and Katikireddi 2012). This study brought this view of MF policy ownership into the conceptual framework that will guide the rest of the study.

From the agency theory point of view, there are examples of agents subordinating the goals of their principals and concentrating on their own sub-goals. According to May (2013: 8) flexibility and autonomy might be appropriate only when the goals of the policymakers and implementers are the same. Goal incongruence may lead to policies that result in lower performance or implementation of MF official goals or guidelines and rule-breaking (Zahra *et al.* 2013; Cieslik *et al.* 2015; Guérin *et al.* 2012: 126), which characterise the social entrepreneurship arena, with MF no exception.

May (2013: 11) argues that situational parameters are the determining factors of sound policy implementation (Wilkinson and Frost 2015: 685; 686; Squires *et al.* 2014). Implementation is part of a diffusion-dissemination-implementation continuum, according to Wilkinson and Frost (2015: 685; 686). The authors espouse that diffusion is the passive, untargeted and unplanned spread of new practices or requirements the MFIs must meet; whereas dissemination is the active spread of new practices to the MFIs using planned strategies, such as organising forums involving the MFIs; while implementation is the process of the MFIs putting to use or integrating new practices within their setting.

This explains the difficulty in crafting peculiar regulations for MF operations, given the dynamic nature of their operational environment (Santos 2012). Cairney (2012: 13) agrees that a top-down model is an appropriate implementation process when change is incremental, technology is certain, the environment is stable, and goal conflict is low, with the institutional setting one of unison. Aligning his argument to complexity theory, Cairney (2012: 5) further contends that the factors that help implement policy under one set of conditions, exacerbate already existing problems under another, such as financial insufficiency of the MFIs and the requirement to increase their capital.

It is therefore clear that choosing the top-down strategy in an unstable environment, such as faced by the MFIs, can lead to resistance, disregard, and pro forma compliance, resulting in ultimate poor implementation. According to Cieslik *et al.* (2015) and Guérin *et al.* (2012: 127) the bottom-up approach may also lead to co-opting and pursuit of individual goals that run contrary to the policy objectives, and these are often more objectionable; an issue that questions MF compliance to policy and regulation guidelines.

These parameters largely revolve around goal conflict, institutional setting and environmental stability, all of which point to the specific nature of the MF sector.

Organisational and agency theories indicate how ambiguity and conflict affect decision-making and implementation. Placing a policy in an agency where it conflicts with existing policies and goals will therefore, lead to few resources, little support, and almost certain failure (Gong and Janssen 2012). Though the guidelines for MF are not conflicting, the bottom-line is that MFIs find it difficult to meet the existing requirements, hence the quest to formulate more stringent regulations (BoG 2015), as their operation does not produce any valid meaning (Boateng 2015).

The Action-Centred model that emphasises negotiation and performance therefore fits advocates of the bottom-up approach. However, the Policy-Action model seeks to attribute the implementation process to availability of structures, comprising rules and resources, and deepens the understanding of the entire process. May (2013: 9) explains that Barrett and Fudge's 1981 Action-Centred and Policy-Action models identify the agency as what must be achieved, the agent as the implementer (MFIs), and the structure as the rules and resources for implementation, within which the process of implementation occurs. This explains the diversity, complexity and interaction necessary to exact successful implementation in the MF sector.

May (2013: 4) proposes integrative models, such as Berman's Ambiguity-Conflict model (Nilsen *et al.* 2013: 5), the Vertical model (Gong and Janssen 2012), Elmore's Forward-Backward mapping model, and the Interactive model, to address these shortcomings. This study subscribes to this proposition, in order to develop an integrated policy ownership model relevant to the MF environment.

Inferring from the various models, policy implementation therefore needs to have a holistic view of the MFIs' environment and consider the networks of these institutions and inter-organisational relationships (Cairney 2012: 37; 38; Little 2012: 16; May 2012: 26; 33). May (2013: 4), which indicates that the implementation process expresses in agency (MFIs). The author further explains that implementation processes are interactions between 'emergent expressions of agency'. Thus, what MFIs do to make something happen and the ways they work with different components of a complex intervention to do so, as well as 'dynamic elements of context', which explain the social-structural and social-cognitive resources they draw on to realise that agency, explain how MFIs implement their requisite operating guidelines.

Cairney (2012: 38) expresses the same view to indicate the complexity of the implementation object; the policy. Cairney's assertion points to the contribution to policymaking by all actors in the implementation process, drawing on existing resources and in consideration of the target's particular setting, to explain how implementation processes are largely collective and collaborative (May 2013: 8) in their form and direction. This assertion is contingent with Smith and Katikireddi's (2012) view that policymaking occurs in stages, culminates in policy cycles, and further explains the complexity of implementation because of non-linear interactions involved.

In conclusion, effective implementation requires a systematic, well-planned approach that considers all relevant factors from both the implementer's (BoG) viewpoint and the target group's (MFIs) perspective. Deducing from the need to see implementation as an evolving and cyclical process, May (2013: 3) concludes that a coalition of administrative agencies, legislative committees, interest groups and all actors in MF policy formulation and implementation, will foster understanding and commitment (Hill and Hupe 2015; May 2013: 3; Hupe 2014: 1) needed for sound implementation. Thus, successful implementation of MF operating policies is neither a question of prescriptive, nor interpretive process but a belief system that culminates

(Cairney 2012: 7; Smith and Katikireddi 2012; Hallsworth and Rutter 2011: 18) into a cycle of formulation-implementation-reformulation (May 2013: 9) and appreciation of other success or failure strategies pursued by MFIs over time. Based on this, the study's proposed Financial Monitoring Policy Ownership model seeks to blend the expectations and resources of all actors in the financial policies for MFIs.

2.2.4 Policy implementation process theory and MFIs

A process, in the context of this study, is comprised of the step-by-step activities engaged in by the MFIs to solve or realise a plan of action; moving a concept into reality as a building process, not a design activity (May 2012: 27). The implementation process, according to Rycroft-Malone *et al.* (2013: 7) and Schmidt, Hache, Herold and Götze (2013: 234), is a four-stage, continuous activity of a Plan-Do-Study-Act (PDSA) intervention.

The PDSA system is a method for continuous process improvement, based on the concept that an implementation process must be fully understood by the MFIs before it can be improved. According to the literature, Gidey, Jilcha, Beshah and Kitaw (2014: 2) pronounce the components of the PDSA system and describe these as follows:

Plan: Decision-makers identify a gap between the MFIs current dispensation and the desired outcome;
Do: once a plan has been developed, the MFIs need to put it into practice; as a pilot, prior to widespread implementation.
At this stage, the MFIs need to '*adopt'* the policy (Hoekstra, Alingh, van der Schans, Hettinga, Duijf, Dekker and van der Woude 2014: 8).
Study: after the plan has been adopted and implemented, it becomes prudent to evaluate and determine whether the gap identified during the planning stage is minimised; and
Act: both MFIs and the regulator management examine and communicate the outcome of the policy intervention.

The outcome of this process will initiate the decision to review the existing policies for MFIs and the introduction of new and enhanced policies that address the current situation (May 2013: 3) faced by the MFIs.

Hoekstra *et al.* (2014: 14) also contend a four-step process in implementation intervention. The Rycroft-Malone *et al.* (2013: 28) 'study' phase of their proposition denotes constant review of the planned activity, in order to ensure its relevance to the intended outcome. Rycroft-Malone *et al.* (2013: 28) contend that policy implementation is successful when its processes are aligned with existing initiatives (May 2013: 5). This emphasises the need for the formulation of regulations to take the existing regulations or guidelines for MFIs into consideration, along with their present market situations, referred to as context (May 2013: 3); which promotes evidence-informed practice.

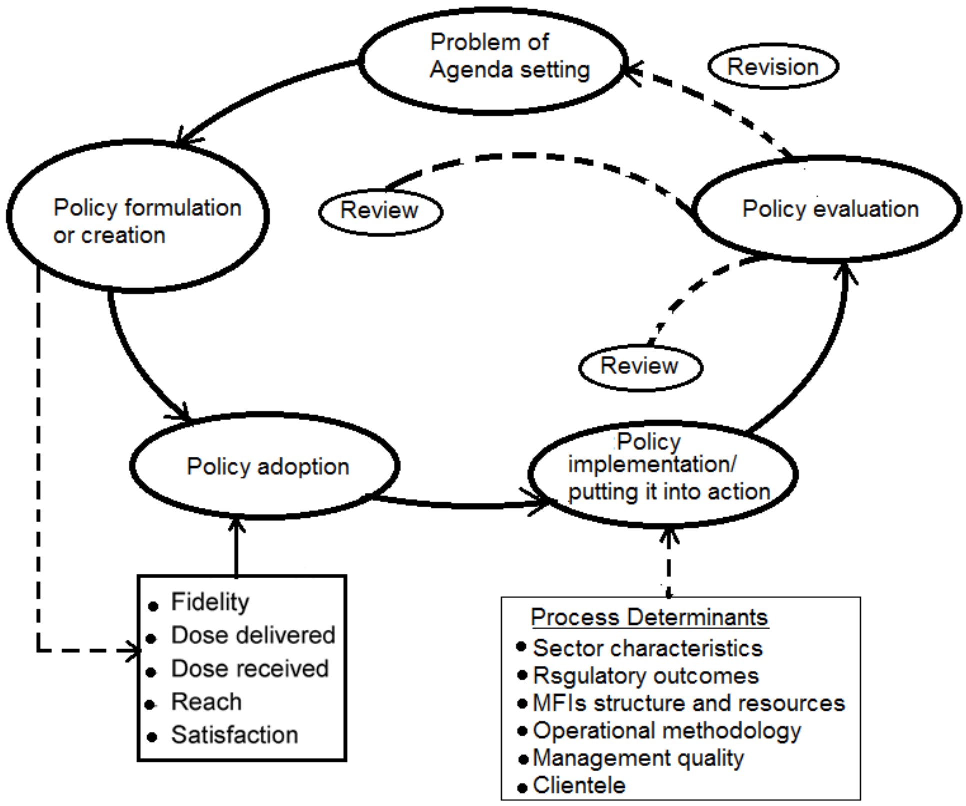
Rycroft-Malone *et al.* (2013) further posit that, when evidence is robust and MFIs 'agree' with it, the context (May 2013: 3) will be receptive, and where implementation processes are appropriately facilitated (Rycroft-Malone *et al.* 2013: 28) by the MFIs, management and/or regulators' implementation of the existing and other new rules is successful. The authors' proposition means that implementation interventions have the potential to work at multiple levels within the MFIs' context and with varying degrees of interactivity between the regulator, para-regulatory agencies and the MFIs.

The PDSA concept of the implementation process involves interplay between individuals, evidence, and context (Rycroft-Malone *et al.* 2013: 28; May 2013: 5), which reechoes the relevant role MFIs must play; from policy formulation through to its ultimate implementation. The implication is that implementation hurdles will be largely removed and policy outcomes extensively realised.

The facilitation and monitoring then provide the needed information for a review represented by the '*Act'* phase of the model. Implementation therefore, becomes a continuous revolving process, based on robust communication, acceptance and interplay between the MFIs and the central bank (Rycroft-Malone *et al.* 2013: 28; May 2013: 5). Thus, the model depicts many activities, including: policy development; dissemination of information; awareness raising; and individual review of MFIs; along with educational meetings; promotion of guidance; and teaching/training (formal and informal); as well as amendment of information; and using role models of good practice (Rycroft-Malone *et al.* 2013: 28).

Armed with these, Rycroft-Malone *et al.* (2013: 28) posit that the MFIs' opinion will operationalise the policy requirements to promote successful implementation of their sector-tailored regulations. This is consistent with May's assertion of implementation processes being interactions between 'emergent expressions of agency' (May 2013: 1), where 'agency' is what MFIs and the regulator will do and the way they do it, with different components, in a dynamic complex intervention, in order to realise the needed change.

On the contrary, Hoekstra *et al.* (2014: 8) adapted Wierenga *et al.'s* (2013) list of the implementation process of adoption, implementation, continuation and determinants. The authors explain 'determinants as interacting factors that foster the implementation success (Hoekstra *et al.* 2014: 8) for MFIs. In the context of this study, 'determinants' of MFIs policy implementation process involve clients, the operational methodology of the individual MFIs, the internal structure of the MFIs, as well as the quality of MFIs' management and the regulations available to the MFIs. Figure 2.1 details the implementation process:



MF Financial policy implementation process model - designed for this study

Figure 2.1: Policy implementation process model

Source: Adapted and modified model from Hoekstra et al. (2014: 8).

May (2013: 4) expresses a similar view. According to the author, MFIs policy implementation therefore, needs to be understood from the outset as a continuous process and interactive accomplishment, rather than as a final outcome (May 2012: 17). The MFIs, the processes and the contexts thus become the major determinants for the successful implementation process of MF operating guidelines and regulations.

According to Hoekstra *et al.* (2014: 8), the processes will include ‘adoption’ of the regulations or policies by the MFIs. The adoption phase in the Hoekstra *et al.* model, however, depends on the level of fidelity of the regulator (BoG) and the MFIs, the dose of the policy delivered and received; as well as the ‘reach’ (level of communication engaged), and the satisfaction (Hoekstra *et* *al.* 2014: 8) and the relevance of the policies to the current market conditions of the MFIs (May 2013: 4).

Due to the social nature of MFIs operation mechanisms (Santos 2012: 338), May (2013: 5) posits that the marketplace and the processes adopted by the MFIs become plastic because effective implementation of one policy will involve changes to many existing guidelines pertaining to MFIs. The financial regulation implementation process for the MFIs will therefore, be characterised as a deliberately initiated process, in which the MFIs intend to bring into operation new or modified practices that are institutionalised by the regulator, and performed by both parties (May 2013: 12) to modify the current activities of MFIs. May seeks to imply that there cannot be any fixed approach to implementing FMPs in the MF sector and this suggests why Ghana, and other countries in Africa and other continents, adopt a self-regulating approach to supervising and monitoring of MFIs.

May (2013: 12), akin to Hoekstra *et al.* (2014: 8), emphasises that the object of an implementation process is some new or modified way of thinking, enacting or organising action, which the MFIs must integrate into practice and make workable through use. That is, creating that change by embedding the regulation in their daily operations.

This study however, couples Hoekstra *et al.'s* (2014: 8) proposition with Weiner's 'change valence and change efficacy' model described by May (2012: 26-33). While the change valence denotes the extent to which the MFIs collectively value the change that any new policy implementation process will bring about (parallel to the adoption phase in the model), the change efficacy is resource-based and relates implementation capability: task demands, resource availability, and other emergent factors in the MFIs market-space (May 2012: 27); which are the determinants. It is the change efficacy determinants that are very important to any successful implementation.

The author contends that, as the MFIs value the proposed or substantively new regulations pertaining to their operation, they will then accept and commit to it from the outset (May 2012: 27). This demands that implementation processes for MFIs are largely collective and collaborative in their form and direction. Ultimately May (2013; 2012) concludes that:

1. an implementation process involves MFIs in the intentional modification of the entire operational mode of their peculiar sector;
2. within their unique sector, emergent expressions of agency of the MFIs both shape, and are shaped by, dynamic elements of their contexts. This ensures continuous interaction to form an emergent social process that will enhance their activities;
3. emergent expressions of agency and dynamic elements of context continuously interact with both endogenous (MFIs internal firm structures) and exogenous contingencies (the regulator and the regulations) and confounders who are allied institutions that seek to ensure sound and stable MFIs sustainability; and
4. MFIs work to negotiate the effects of interactions, contingencies, and confounders that they seek to make these plastic and shape them through their agentic contributions, and thus to govern the conduct of an implementation process and its outcomes (Gray, Contento and Koch 2015: 2).

2.2.4.1 Policy adoption process

The study recognises that the level of compliance the MFIs will give to the available and even to new policies, depends on the elements tabulated below:

Table 2.2: Description of microfinance policy adoption elements

Adoption element	Relevant explanations
1. **Fidelity of the MFIs and the regulator.**	The level of commitment (May 2014; Freeman, Rusconi, Signori and Strudler 2013: 1-3) both parties extend to the policies for the MFIs and the trust (Hoekstra *et al.* 2014: 8) the MFIs developed in the regulator are imperative for compliance. This will emanate from the previous dealings or level of interactions (Geyer 2012: 15) the regulatory authority (BoG) engages with the MFIs. The involvement of the MFIs in such policy formulation (Hallsworth and Rutter 2011: 8; Cairney 2012) and the extent of communication that ensues (Mago, Hofisi and Mago 2013: 159; Dahir 2015: 56-62; Little 2012: 16) between the regulatory authority and the MFIs during the policy formulation stage are also relevant.
2. **Dose of policy delivered**	The MFIs already have enough regulations to contend with. The kind of regulation or changes made and how relevant these changes are to the current market situation (Rycroft-Malone *et al.* 2013: 28) of the MFIs will also facilitate the policy adoption and implementation process. Hence, the number of changes and new requirements to be met by the MFIs will dictate their readiness (Freeman *et al.* 2012: 1-3) to adopt such policies. The banking guidelines for MFIs in Ghana are continuously reviewed (BoG 2011; 2012; 2013) resulting in institutions seemingly faced with a continuous need to adjust to such policies, when reviewed and released. The mode of delivering these policies to the MFIs also raises another question: is it gradual (piloted) or radical? Given their peculiar nature, the friendlier this is to the MFIs operations the better the results will be.
3. **Dose of policy received**	This explains how many existing policies (Freeman *et al.* 2012: 1-3) MFIs are dealing with and how these policies are impacting MFIs' activities. Further, the dose of the policies received indicates how comfortable (May 2014: 1-23) the MFIs are with the available policies, as well as serving as an indicator to the regulator regarding available gaps and which aspects of the existing policies/regulations need review to match (Rycroft-Malone 2013: 28) MFIs current operational needs. Evaluating the impact of existing regulations will therefore, indicate how MFIs grapple with, understand and comply with the regulations. The amount of information available to the MFIs and the media of communication (Little 2012: 16) play key roles in ensuring MFIs receive accurate information, as to what is expected of them. MFIs operations are diverse; coupled with the diverse location of the institutions; this means policy communication deserves special attention. Educating MFIs as to what is expected of them is equally imperative. This calls continuous management training into question. Ojo (2013: 6) states that inadequate definition of goals (Gong and Janssen 2012) makes a policy lack clarity, leads to internal consistency and compatibility with existing policy goals and results in unsuccessful implementation of such a policy. The clarity of the information contained in the policies is therefore to adoption and implementation of such MF policies. Ultimately, the disposition of the MFIs to the new regulations or policy will determine their readiness to comply (May 2014: 15).
4. **Reach**	Explains the ease with which the regulatory policy instruments are communicated (Little 2012: 16) to the MFIs. In Ghana, the MFI apex structure's (Ghana Association of Microfinance Companies (GAMC)) mission is to foster unity and promote a clean and level playing field for all registered member institutions, as well as to ensure regulatory compliance among members. Do the apex institutions serve as intermediary through whom all microfinance policies are communicated or is there a direct link between the regulator and the individually registered MFIs? (Hoekstra *et al.* 2014: 8). Countries including Indonesia, Peru, India, Zambia and Kenya have separate regulatory authority for MFIs (Mago *et al.* 2013: 159). This facilitates dissemination of relevant information on existing, as well as any new policies, while also promoting accurate education on the demands of such policies. Ghana's situation is unfortunate due to the role overlap (Addae-Korankye 2012: 135-141) that affects the apex bodies, including the GAMC.
5. **Satisfaction**	Data availability (Mago *et al.* 2013: 164; Addae-Korankye 2012: 139) in the MFI sector is broadly lacking both in Africa and rest of the world. How

	satisfactory is the level of compliance to current/ existing regulations and policies and what level of achievement is expected from the reviewed policies? The communication of such answers (Little 2012: 16) and securing accession of MFIs to existing regulations (Hoekstra *et al.* 2004: 8) will ensure consensus between the regulator and the MFIs in the early stages of policy formulation and implementation (May 2013: 1-14). Satisfaction also depends on data (Mago *et al.* 2013: 164) and the disposition (May 2014) of the MFIs. Since guideline reviews in Ghana deal mostly with minimum capital requirements (BoG 2013) and capital adequacy of the MFIs and as these requirements directly impact their operational abilities, the probability of shifting their inclinations negatively is high and hence, non-compliance with regulations among the MFIs is high.

Note: Summary of policy adoption elements adapted from implementation theories for this study

Communication is cardinal for adoption and effective implementation of MF policy. Through communication, policy requirements are relayed and orders to implement such policies are transmitted unequivocally and consistently to the appropriate personnel and the MFIs (Little 2012: 16; Mago *et al.* 2013: 165). Thus, inadequate information can lead to a misunderstanding on the part of MFIs' management, who may be confused as to what exactly is required of them or the intended information will be distorted, thereby creating an implementation gap.

Mago *et al.* (2013: 165) state that MFIs in Africa mostly lack Management Information System (MIS). Where these exist, the writers note that the MFIs lack effectiveness and consequently, insecurity of the portfolio management system is evident. Wampah (2012) states the inadequacy of resources - communication infrastructure, as well as human resources - as the problem hampering Ghana's MF sector. Mago *et al.* (2013: 165) indicate that the external environment of the MFIs is not safe, software used by the MFIs does not have internal safety features (that is, no backups) and therefore, produces inaccurate MIS and untimely reports. Implementation thus suffers when no effective and relevant communication ensues between the BoG and the MFIs in Ghana; specifically, in Accra.

Where implementation orders (dose) are clear, consistent and accurately transmitted, inadequate resources (Warnier *et al.* 2013: 1366; Gong and

Janssen 2012) on the part of the MFIs and the regulatory authority, will hamper the implementation process. Resources, in the MF context, comprise human, financial and material aspects. The MFIs need quality human resources, such as adequately qualified management and staff (Boateng and Boateng 2014: 11); who are well-equipped to carry out implementation of the FMPs.

Added to this, MFIs also need relevant and adequate information on the implementation process, the authority to ensure that policies are carried out as they are intended, and facilities, such as equipment (Mago *et al.* 2013: 165), as may be deemed necessary for the successful implementation of the policy. Insufficiency of resources makes Ghana's MF policies less enforceable, as is the case in Zimbabwe, Tanzania and Kenya (Magali 2014: 262; 268; Ali 2014); and reasonable regulations will not be developed. This reflects the assertion by Wampah (2012).

Disposition or attitude of the MFIs is another key factor that affects financial policy implementation (May 2014: 17); though this cannot be divorced from the quality of human resources employed by MFIs. Policy implementers exercise their discretion, based on their inclination towards the relevant policy and hence, MFIs compliance to regulation across Africa and Asia can be linked to the perception of their management of the relevant regulations.

MFIs management and staff can exercise considerable discretion in the implementation of MF policies because of either their independence from their nominal superiors who formulate the policies or because of the complexity of the policy itself (Hoekstra *et al.* 2014: 8); and also because of the social nature of their operations. Therefore, the level of success of the implementation process depends on how the MFIs in Ghana, as well as other parts of Africa and the rest of the world, see the policies as influencing their individual, organisational and personal interests.

The MFIs disposition is a hands-off one because FMPs are mostly those that increase minimum capital requirement (BoG 2013), thereby reducing operating capability. This adverse impact is a cause for contravention of the law (Sinclair 2012; Kinde 2012: 2; Guérin *et al.* 2012: 124).

These determinants could pose problems leading to an implementation gap and can be traced not only to the policy itself but also to the policy maker and the policy environment.

In summary, policy adoption revolves on fidelity as its pivotal point. Other elements, imperative to policy adoption and commitment to such policies, include: the amount of policies made and disseminated; the application of such by the MFIs, and the level of achievement of the intended outcome the MFIs are capable of realising; given their present resources.

2.2.4.2 Policy evaluation

The evaluation of existing policies' impact on MFI activities is necessary to identify gaps in the prevailing regulations/policies and also to review or reformulate (May 2013: 7) aspects of current policies. Policy evaluation therefore, depends on feedback from MFIs through effective monitoring and supervision activities. The MF sector is popularly claimed to lack adequate data for monitoring and evaluation (Freeman *et al.* 2012: 2). Communication (Mago *et al.* 2013: 159; 161; Little 2012: 16) is therefore pivotal in facilitating the policy evaluation process.

The most important point to emphasise, in respect of policy implementation by the MFIs in Ghana and Africa (Riquet and Poursat 2013: 1), is the extent to which success or failure in implementation depends on the activities already carried out (Rycroft-Malone *et al.* 2013: 28) at the policy formulation stage. Where the incidence of monitoring and supervision lacks data for future review of existing policies (Rycroft-Malone *et al.* 2013: 28; Freeman *et al.* 2012: 2), subsequent regulation of the MFIs will equally lack consistency, coherence and be teemed with ambiguity (Embrett and Randall 2014; May 2013: 5) and consequently, there will be implementation failure.

The policy evaluation stage indicates whether the implementation processes and determinants need review, in order to ensure MFIs compliance or there is the need to review the policy formulation processes (May 2013: 6). Since MFIs are social enterprises and the environment determines their nature and legal form (Santos 2012: 335), with the environment being dynamic (Cairney 2012: 8), policies for MFIs must be aligned (Rycroft-Malone *et al.* 2013: 29) to their specific operating environment. It is therefore imperative that the central banks (BoG, CBK, BoU, BoT) and cases where there is a separate regulatory authority, such as the Microfinance Regulatory Council (MFRC) of South Africa, identify problem spots to promote crafting appropriate regulations that relate the contemporary market needs of the MFIs (Rycroft-Malone *et al.* 2013: 28). When the MF operating environment is properly considered in all regulatory policies, the full impact of every regulation for the MFIs will be realised.

Since many variables and assumptions underlie the formulation of the policy (Hallsworth and Rutter 2011: 8) and the formulation and implementation of policies are not completely distinct phases of activities (May 2012: 5), then there is no definite end to policy implementation (Hoekstra *et al.* 2014: 8) for the MFIs and their regulation. It is therefore, imperative that new demands that emerge due to the evolving and innovative nature of the MF sector must be transmitted to the policy-making machinery and be processed and transformed into one or more policies (Rycroft-Malone *et al.* 2013: 28) that, in turn, have to be implemented. This informs various reviews: review of the problem or agenda, review of the formulation process or review of the implementation process.

Thus, the entire formulation-implementation activity becomes cyclical (May 2013: 7). As constraints, such as lack of funds, inadequate manpower

(Boateng and Boateng 2014: 11), inadequate monitoring of the MFIs (Addae-Korankye 2012: 137), as well as inadequate infrastructure, are identified during the outcome evaluation by the policymaker and regulator in such countries, including Ghana, where the central bank has both the power of policymaking and supervision and are resolved by constant review, policy implementation processes will be easy for the MFIs and can be assessed.

2.2.4.3 Policy implementation determinants

The implementation of every policy is a dynamic process, which involves the interaction (Geyer 2012: 6) of many variables (Hoekstra *et al.* 2014: 8; Hallsworth and Rutter 2011: 18). The study identifies that the implementation process of regulations pertaining to MFIs is characterised by certain key factors peculiar to the MF industry, referred to as 'determinants' in this context. These determinants interact to promote or hinder MF policy implementation in the financial sector. The implementation determinants or environment (Hoekstra *et al.* 2014: 8), in this regard, include some key characteristics of the MFIs, bureaucratic structure, communication resources and others, tabulated below:

Table 2.3: Description of microfinance policy implementation determinants

Determinants	Relevant description pertaining to the MFI sector
1. Sector characteristics	Sector characteristics define MFIs as social enterprise and their operation mechanism (Santos 2012: 337-338). These define the legal form (Rivera-Santos *et al.* 2012; Montgomery *et al.* 2012: 375-388) of the MFIs and their operations. The CGAP proposes MF regulations to be tailored to country specific situations, even though MF activities across the globe exhibit similar sector characteristics (CGAP 2011; 2012). The Ghanaian economic situation and the culture of the people therefore, spell how the MFIs respond and adapt to the relevant regulations (BoG 2013).
2. Regulatory outcomes	This characteristic explains the target of the regulator, what MFIs must do to achieve such set goals and requirements embedded in the available and reviewed regulations pertaining to MFIs, to remain sound and achieve sanity in their operations. The policy guidelines regarding the tier system, as practiced in Ghana, Tanzania, Uganda, and other countries in Asia, makes it difficult for MFIs to delineate their activities (Magali 2014: 262-281). Cross-tier operations and illegal operators are thus given leeway, due to the high level of ambiguity that characterises the policy frameworks. The policy outcome determines the dos and don'ts and the prescribed path of the implementation process (Rivera-Santos *et al.* 2012; Montgomery

		et al. 2012: 375-388) the MFIs must follow.
3.	**Firm structure and resources**	This characteristic explains the capability of MFIs to internalise these regulations in their operating strategies. It calls for physical and non-physical resources, such as communication infrastructure (Mago 2013; Little 2012: 13) and sound management skills (Dahir 2015: 56-62; Addae-Korankye 2012: 136). Writers decry the inadequacy of infrastructure to aid MFIs in their operations (Wampah 2012; Boateng and Boateng 2014: 11; Mago *et al.* 2013: 165). African MFIs (Riquet and Poursat 2013: 1) as much as several others in Asia and Latin America are noted; a phenomenon largely ascribed to the relative small size of many of these MFIs.
4.	**Operational methodology**	Linked with the regulations that determine the extent of operation of the MFIs, methodologies indirectly tell the regulator the compliance level achieved by the MFIs, as per the available requirements the institutions must meet (BoG 2013; MRA 2006). Any digression from the dictates of the regulation means MFIs are operating outside the regulatory requirements (Ogbolu *et al.* 2015: 77-89). Ghana closed 31 MFIs in 2013 and numerous others that did not meet the current regulatory requirement had their licenses withdrawn. The MRA of India, the sole licensing and supervising authority for MFIs in India, does the same by withdrawing licenses to enforce the regulations (Rahman and Luo 2012: 1019-1033).
5.	**Management quality**	Put to use! It takes awareness, skills and a certain amount of managerial competence to apply the relevant regulations (Ojo 2013: 6). It takes astute and experienced management to understand and embed regulatory requirements into daily operation of MFIs. This is achieved by continuous training or learning and growth to brace up all staff to achieve institutional standards. Addae-Korankye (2012: 139) and Ali (2015a: 123-130) identify poor quality management as a crippling factor affecting MFIs governance in Ghana and Kenya and Tanzania.
6.	**Clientele**	Across the globe customers of MFIs are the poor, who lack access to formal financial institutions (Nzaro *et al.* 2013: 429-438; Ali 2015a: 123-130, 2015b: 76-83). The diverse needs of the poor, given country specifics (CGAP 2011; 2013), dictate the approach each MFI offers its clients. In Accra (Ghana), the larger clientele of MFIs is comprised mostly of smallholder market women and artisans (Mensah 2013: 165-175). Variability of client demands, in terms of loan arrangements, is directly linked with MFIs method of operation and regulation implementation, as well as compliance. The social enterprise characteristics (Santos 2012: 337) of MFIs therefore, prove that client demand could be a source of compliance or non-compliance (Kinde 2012: 2) to operation guidelines regarding MFIs.

Note: Summary of theories on implementation process reviewed for the study

2.2.4.4 Implementation gap

This research observed that when the policy formulation, adoption, implementation and evaluations lack implementation, a gap is imminent.

> *"Implementation is the nemesis of designers, it conjures up images of plans gone awry and of social carpenters and masons who fail to build to specifications and thereby distort the beautiful blue prints for progress which were handed to*

> *them. It provokes memories of "good" ideas that did not work and places the blame on the second (and second-class) member of the policy and administration team…"*
> (Honadle 1979: 6).

The above quotation shows the importance attached to policy implementation and those that are responsible for implementing these policies. The MF policy therefore, fails when there is a sizeable gap between a policy decision and its implementation outcomes (Pritchett *et al.* 2012; Hill and Hupe 2015). It is evident that the policy instrument, the MFIs or the environment and the policymaker could create the implementation gap. This is evident with the central bank in Ghana and other countries, where the central or reserve bank performs the dual role of licensor and supervisor or the separate MF regulatory bodies, as found in Peru, Kenya, India, Bolivia and Indonesia (Mago *et al.* 2013: 161).

Dupas and Robinson (2015) analyse how MF enables microenterprises, identifying resource constraints (Ojo 2013: 6) in the implementation of regulations regarding MFIs. The authors note that availability of human and technological resources limits the capacity (Dupas and Robinson 2015) of MFIs for improving and also constraining monitoring institutions (Wampah 2012) from carrying out its mandate; hence negatively impacting monitoring and supervision of MFIs.

An implementation gap can arise from the policy itself, when such a policy does not emanate from the collaborative efforts of the regulator and the MFIs. By this, it is meant that policy formulation is top-down (Nilsen *et al.* 2013: 4; Embrett and Randall 2014: 149 and May 2013: 5), which by implication, means MFIs are not allowed to contribute to the formulation of the policies that affect their operations (Pritchett *et al.* 2012). Hence, MFIs will feel reluctant to adopt those policies, incorporate them into their daily operating activities and implement them. Policy formulation is, consequently, expected to have a participatory system (Hallsworth and Rutter 2011: 18; Cairney 2012: 9) involving MFIs, in order to enhance understanding and early acceptance and implementation. Such participation will give MFIs a sense of belonging, as well as have them commit to the successful implementation of the policy (May 2014: 6; Geyer 2012: 8; Hallsworth and Rutter 2011: 18).

Another cause of an implementation gap is the failure of policy makers to take into consideration the specific MF environmental issues (CGAP 2011; 2012), such as social, political, economic and administrative variables (Cairney 2012: 3; Hallsworth and Rutter 2011: 18), when analysing for policy formulation. The MFIs as social system are characterised by erratic environments determined by the demands of their clients. As a result, recognising the effects of these environmental factors will promote implementation efforts of the MFIs. Can a laudable policy be implemented without the support of economic and administrative variables? Of course, these facilitate the implementation process and their absence creates an implementation gap (Winter 2012; May 2013: 5) or infraction of the financial monitoring regulations.

2.2.5 Financial intermediary theory and MFIs

The theories of financial intermediary regarded institutions performing such functions as delegated, diversified monitors (Viswanathan 2014), who are modeled as collateralisation specialists (Viswanathan 2014) because they are better able to enforce their claims, due to specific borrowing ability, to collateralise assets to back their loans. Commercialisation of MF activities force fit this definition.

Ogbulu *et al.* (2015: 83) opine that a financial system consists of financial intermediaries, financial markets and financial products of all kinds as well as the regulations that guide the operations of the system. MFIs taking deposits and other institutions licensed to accept monies from the public are, therefore, financial intermediaries because they mobilise savings across all income levels and geographical area(s) (Ogbulu *et al.* 2015: 83; 84) and are thus obliged to comply with available financial regulations.

As financial intermediaries, MFIs area link between two units. In this context, an excess economic unit (individual MF provider and donor institutions or investors) and a deficient economic unit, the poor clients. Banks, including MFIs, therefore function as financial intermediaries. Aliul-Rahman, Latif and Muda (2014), in their study of Islamic banking in Malaysia, aver that banks perform four essential functions as financial intermediaries. These functions include:

i. The bank intermediates between economic units with excess and deficient financial resources.
ii. It also adapts terms, from borrowing on a short-term basis to lending on a long-term basis.
iii. It manages money spatially, taking financial savings in the form of deposits and other liabilities in some regions, in order to finance loans in other regions.
iv. It acts as a risk evaluator, efficiently producing valuable information regarding the profitability and risk involved in many operations and investments (Aliul-Rahman *et al.* 2014).

Aliul-Rahman *et al.* (2014) reflect that their proposed first and fourth functions stated above are what really make a bank or an institution a financial intermediary. In their conclusion, the authors posit that the performance of intermediary functions is to reduce inefficiencies due to information asymmetry (Aliul-Rahman *et al.* 2014), as inability to do so could increase the cost of attracting investors and entrepreneurs (Moss, Neubaum and Meyskens 2014: 28).

However, the second criterion does not apply to MFIs, since they are known to be providers of small, non-collateralised loans, due to their financial capacity (CGAP 2011; Obisesan and Oyedele 2015). The fourth criterion is even worse, as it is lack of this acumen that exposes most MFIs to embezzlement, loan default and premature collapse; a problem (Boateng and Boateng 2014: 12; Addae-Korankye 2012: 136) referred to as management deficiency in MFIs. In this light, the problems of MFIs are related to incapacity of management, as well as regulatory problems and these problems cannot ensure effective implementation of relevant FMPs in the sector.

2.2.6 Agency and stakeholder theories and microfinance

Agency theory was developed on the premise that there is goal incongruence between a principal and an agent (Song *et al.* 2015; Puyvelde *et al.* 2012: 429-451), so long as both parties in the contract want to maximise their individual utility. Puyvelde *et al.* (2012: 431) described agency as a contract under which one or more persons (called the principal) engage another person (the agent) to perform some service on their behalf, thereby delegating some of the decision-making authority of the principal to the agent. In the context of this study, MFIs are seen as the agents to the fund producers, to provide services (microfinance programmes (MFP)) to their clients; agents of social change (Abhi *et al.* 2015; Santos 2012: 336).

Again, this study regards MFIs as agents in the implementation of financial policies once they are licensed and are given the legal mandate to operate. By obtaining the license, the MFI pledges to comply with all regulations (BoG 2011; 2012) regarding the sector and to work with the financial regulator, in order to maintain financial stability.

Research indicates that goal conflict in agency relationships creates cost, which include monitoring, information, contracting and residual cost (Puyvelde *et al.* 2012: 431; 433; Song *et al.* 2015; Foss and Stea 2014; Bagozzi *et al.* 2013: 1762; 1788; Daly 2015: 17). Based on the agency cost and the quest to minimise it, research proposes goal alignment, such that the principal-agent goals are geared towards one common purpose (Song *et al.*

2015). The lack of implementation (Hill and Hupe 2015; Winter 2012) of financial policies and guidelines by MFIs or limited application of such guidelines, attests to the fact that MFIs interest is in divergence with macro-prudential goals of the nation.

Puyvelde *et al.* (2012: 430) argue that goal alignment in agency theory assumes low identification with an organisation, relative to stewardship theory, which assumes high agent identification. According to the authors, it is this that creates conflict and hence, alignment of goals to share the cost associated with contract failure. Freeman *et al.* (2012: 2) aver that when the operations and other unobservable attitudes of the agent (MFI management and loan officers) are not checked or restrained, the goals of the principal (private owner) may well not be fully attained; this creates the agency liability. Based on this claim, this study becomes more important as regulation and monitoring is the only way to restrain MFIs, in order to ensure their operations are aligned with the operating guidelines that are to regulate their activities.

Foss and Stea (2014: 101, 107) contend that, though agency theory helped the redesign of management reward systems and organisational information policy (IP) it, nonetheless, failed to address the principal's ability to identify the agent's real intentions, knowledge and beliefs. Thus, the 'theory of the agent's mind' is lopsided (Foss and Stea 2014: 101; 107). This is particularly the case with rule-breaking (Zahra *et al.* 2013; Cieslik *et al.* 2015; Guérin *et al.* 2012: 124) that characterises the MF sector because at this basic level divergent opinions are represented. It is therefore suggested in literature that instituting IP, redefining performance measures, collection of information from the agent and other relevant sources (Foss and Stea 2014: 101-116; Bagozzi *et al.* 2013), as well as developing parameters to reward the agent. This re-echoes the views of the bottom-up policy formulation optimists.

Song *et al.* (2015) allege that agency theory is characterised as a theory of the ownership structure of the firm. Dorsey (2014: 63) agrees and further posits that the type of owner affects the principal-agent relationship and hence, the implications for enforcement of imminent contraventions that ensue. In the MF dispensation, IP and goal alignment to the national financial system dictates will result in policy ownership. This will ensure that the failure of the entire financial system, due to rule-breaking (Guérin *et al.* 2012: 122; 128) and illegal operations (Zahra *et al.* 2013; Cieslik *et al.* 2015; Foss and Hallberg 2014), which are prevalent and accepted as a norm for operational efficiency and business creation among the MFIs are reduced.

In addition, close implementation of relevant policy and compliance to regulatory requirements are ensured. Hence, cost of failure and liquidation, along with monitoring cost by both MF institution internal monitors and the external institutional regulator (agency cost) (Puyvelde *et al.* 2012: 433; Bagozzi *et al.* 2013: 1762; 1771) will reduce as well.

According to Heracleous and Lan (2012: 224), agency theory recognises various stakeholders as a team, thereby making them institutionally sensitive to the organisation’s activities. The term ‘stakeholder’, according to Puyvelde *et al.* (2012: 434), is any person or group that is able to make a claim on an organization’s attention, resources or output or who may be affected by the organization (Puyvelde *et al.* 2012) The authors postulate that stakeholder management must focus on explicit management of all actors; whether they are internal, external or an interface with the organisation (Puyvelde *et al.* 2012: 434).

Freeman *et al.* (2012: 2) are of the view that stakeholders are most likely to co-operate with other actors that have similar interests; and contend that stakeholder relationships change constantly, as interests change in different contexts. Relevant conclusions drawn from the discussion above, coupled with Santos’ (2012: 339) statement on considering the working environment of the social enterprise in policy formulation, correlate with various assertions that point to the involvement of MFIs in making decisions pertaining to them will purchase MFIs' support in realising the objectives of such policy decisions of policies.

2.2.7 Resource-based theory (RBT) and MF

A number of views are expressed in literature (Warnier *et al.* 2013: 1366; Gillis, Combs, and Ketchen Jr. 2013: 453) that seek to illuminate what organisational resources, referred to as 'strategic assets', are. Gillis *et al.* (2013: 453) define strategic assets as resources that are valuable, relatively scarce, inimitable, as well as difficult to imitate, with the ability to deliver competitive advantage.

Sirmon, Hitt, Ireland and Gilbert (2011) link their discussion to organisational function of management and conclude that, for a firm to capitalise on its strategic assets, its managers must organise the firm in a manner to leverage such assets for competitive advantage. RBT describes the characteristics of strategic assets as resources and capabilities that generate performance differences among firms (Warnier *et al.* 2013: 1366). Thus, organisational resources for MFIs include financial capital, quality management staff, technical infrastructure and information because of these institutions' dynamic market environment.

Gillis *et al.* (2013: 455) point out that organisational resources determine performance and the level of value that can be created. Moreover, the level of capital and the quality of MFI management are crucial in generating that value; and as important in the financial policy implementation process for MFIs. The actual value creation, according to Warnier *et al.* (2013: 1366), results from the strategic action of the firm and not only from the intrinsic characteristics of the resource. This action relates how the management of the MFIs applies the relevant policies to their operations.

The truth therefore, is that possessing a resource is not an end in itself but understanding the productive performance of the resources possessed and managerial actions on such resources more fully, creates the value unexpected by agents in the given industry (Warnier *et al.* 2013: 1366). We can then understand that the MFIs will enjoy competitive advantage only when they embed the relevant policies and implement unique, value-creating strategies, not simultaneously implemented by other social enterprises in the industry; and this is achievable within an appropriate legal environment. Therefore, the implementation of key policies, including financial regulations in the case of MFIs, is non-negotiable, as this guarantees sanity in the sector, resulting in quality management of the MFIs.

The ability of a manager to actively assemble, organise or repackage and deploy such resources, so as to create valuable products and services (Sirmon *et al.* 2011), impacts the leverage of different strategic assets and hence, the achievement of competitive advantage. Though earlier research results state financial, social and human capital as three classes of resources on which resource–based entrepreneurship theories rest; this study focuses mainly on the human capital class.

The bottom-line of the theory rests solely on the capability of managers to leverage strategically valuable resources, by organising them to optimise their usage and maximise their value (Gillis *et al.* 2013: 459; 454). Consequently, MFIs need managers who understand and will adopt the applicable regulations, and operate within the parameters of such regulations and operating guidelines, in terms of creating brand reputation, operational routines, trust, and knowledge-sharing.

Management failure has been identified as one of the woes that has bedeviled the efficient and effective operation of many MFIs (Quao 2011, Boateng and Boateng 2014: 12; Addae-Korankye 2012: 141). Linking this assertion to the quality of human capital of MFIs, it is common knowledge that, in most cases, both management and staff are not qualified enough (Boateng and Boateng 2014: 11; Addae-Korankye 2012: 139) to efficiently operate legitimately, which is why there is non-compliance with existing policy guidelines for MFIs. The implication is that many MFIs will face closure (Microcapital 2013) by the BoG or worse, run into financial malfeasance due to poor management.

2.3 Conceptual framework on policy formulation and implementation for MFIs

The conceptual framework for this study is based mainly on the theories captured in the theoretical framework, notably: policy formulation (Hallsworth and Rutter 2011: 18; Cairney 2012: 9; Embrett and Randall 2014: 149); implementation (May 2013: 1-14; Nilsen *et al.* 2013: 5; Gong and Janssen 2012); agency (Puyvelde *et al.* 2012: 429; 437; Song *et al.* 2015; Foss and Stea 2014); and stakeholder (Puyvelde *et al.* 2012: 432; Doherty, Haugh and Lyon 2014; Freeman *et al.* 2012: 1, 2; Desender, Aguilera, Crespi-Cladera and Garcia Cestona 2012; Dorsey 2014: 63); as well as financial intermediary (Viswanathan 2014; Ogbulu *et al.* 2015); and resource-based theory (Gillis *et al.* 2013: 455; Warnier *et al.* 2013: 1366).

These theories are used to analyse the policy formulation, implementation and monitoring of MFIs. In particular, the scope of analysis focuses on stakeholder interest alignment, which will result in goal congruency that the study asserts will ensure compliance with financial regulations pertaining to MFIs.

The study proposes a financial monitoring policy ownership (FMPO) model, presented in Figure 2.3. This study's '*3-Pillar FMPO model*' is developed on the premise that participation in decision-making integrates the views of all interest groups (Hill and Hupe 2015; May 2013: 7). These individual institutions' input will devolve into robust decisions that the MFIs will adopt; because it is difficult to break the rules (Cieslik *et al.* 2015; Guérin *et al.* 2012:

131) the MFIs are involved in making, as rule-breaking (non-compliance) happens in jurisdictions with weak regulations (Zahra *et al.* 2013).

The study also presumes to reverse the top-down approach (Cairney 2012: 1-12; Smith and Katikireddi 2012; May 2013: 8) to decision-making and implementation, where the central bank wields the power to a bottom-up model. It is thus a democratic model (May 2013: 8; Hallsworth and Rutter 2011: 18), where input from the firm internal structures (configuration), comprised of the MFIS and external configuration that represent the central bank, where it plays a dual role, blends to create a workable framework that can be internalised and operationalised (Nilsen *et al.* 2013: 6) by the MFIs, ensuring compliance and reducing monitoring cost.

The model (Figure 2.3) has three cardinal pillars of IP, with the assumption that agency cost, stakeholder goal incongruence and essentially, rule-breaking in the MFI sector directly relate a lack of adequate information concerning MF operating guidelines, as well as to supervision and monitoring. The second and third pillars are firm internal structures and external configuration, respectively.

These pillars, as revealed in the model, individually have elements that, when properly coordinated, by the assumption which underscores this study, will provide the basic needed data and information critical and relevant for making and updating existing regulations. The operations of the financial subsector will be strengthened by ensuring effective implementation of relevant, regulatory guidelines.

This study also assumes that, should these three pillars be integrated, a ‘hybrid’ regulatory framework can be crafted that will work better for MFIs than self-regulation practices and or subjecting (Nilsen 2015) the MFIs to prudential regulation. This is based on the fact that MFIs are now commercialised and accepting deposits, which was vehemently criticised by

Santos (2012: 338), but later argued by for Moss *et al.* (2014: 43) and Mokhtar *et al.* (2014: 56).

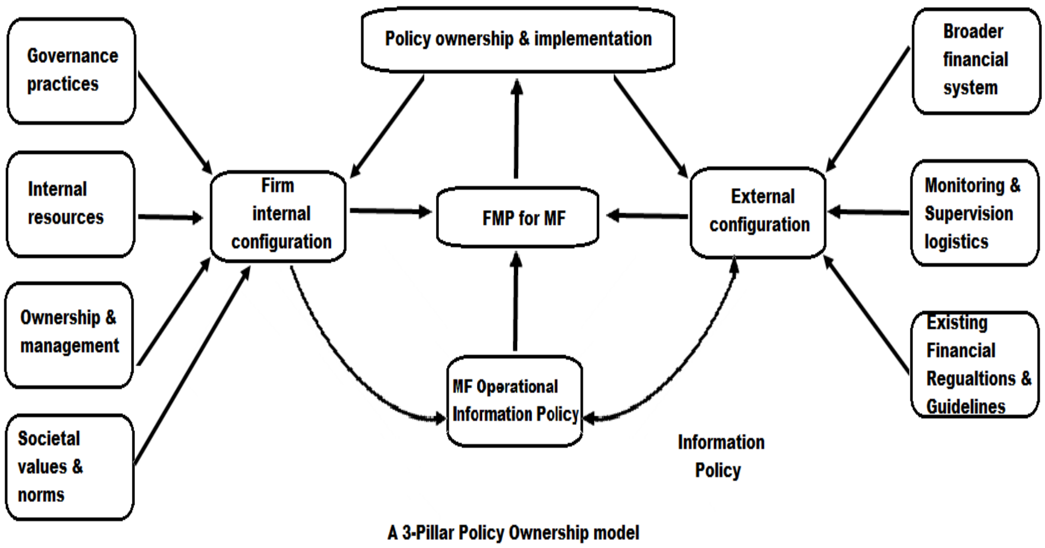


Figure 2.2: FMPO model for MFIs

Source: Developed by the researcher for this study

2.3.1 Components and descriptions of proposed FMPO model

The cardinal objective of this study is to explore the FMPs pertaining to MFIs in Ghana, their implementation, challenges and monitoring. This 3-pillar policy ownership model (Figure 2.3) was developed to explore the study objective and to address the relating questions that revolve around IP for MF operations as its fulcrum and complemented by firm internal structures and external regulatory environment structures.

This conceptual model, a *3-pillar FMPO model*, assumes internalisation of existing guidelines for MF and updates of such regulation (guidelines), given that sound IP for MF operations, which ensure a regular flow of relevant, critical information (Geyer 2012: 12; Little 2012: 17), will be the key to compliance and implementation. In addition, changes in the operational and legal environment, through the MFIs network system, must also be considered (Hallsworth and Rutter 2011: 18; Cairney 2012: 8).

The baseline information that serves as the foundation on which the pillars rest are the existing Banking Acts, NBFI Act, the BoG banking guidelines (Bog 2011; 2012; 2015) and other financial policies of Ghana (NBFI Act 1993).

The proposition is that the MFIs will therefore be regulated by a 'hybrid' regulation. This is imperative because the sector is yet to attain self-sustainability and taking cognisance of the complexity (Hallsworth and Rutter 2011: 18) and the dynamic innovations that characterise the sector's operations, with neither prudential regulations (which other authors propose based on deposit taking activities of the MFIs) being relevant; nor is self-regulation is the way. This is very important because the collapse of the MF sector can lead to contagion, culminating in systemic or tail risk in the entire banking and financial system; no matter how small the MF sector seems, relative to the entire financial system.

2.3.1.1 Pillar 1: Information policy of the MF policy model

The IP will serve as the binding factor for the firm's internal structures (pillar 2 representing the MFIs) and the external configuration (pillar 3 representing the external regulator – the central bank and allied institutions). The IP will now be a data exchange platform or sentry and hold the information on all operations of the MFIs, as well as rules, guidelines, conventions and other legislative issues regarding microfinancing.

In this data exchange centre the external regulator specifies (Gong and Janssen 2012) the requirements for monitoring and supervising the MFIs and provides feedback. The centre constantly informs both MFIs and the external regulator of the current conditions and exigencies of the marketplace and helps the regulator (policy maker) and its other arms or actors (Pritchett *et al.* 2012; Cairney 2012: 9; Smith and Katikireddi 2012) to update policies and other guidelines that suit the current challenges (May 2013: 7) the MFIs face.

The operational definition of IP for this study sees it as an indispensable tool for the regulator, the means by which it senses itself and therefore, the medium through which all other decision-making takes place. It involves information creation, processing, flows and use, as well as security, over such information that is proprietary to both the central bank and the MFIs. In creating an IP, the MFIs (targets) for which the policy is made and knowledge of the current law (Banking regulations, guidelines and the Acts) that provides the foundation, must be considered (Foss and Stea 2014: 113; Bagozzi *et al.* 2013: 1785). Thus, the outcome (Smith and Katikireddi 2012) of the decision policy will be used by two cognitive agents (May 2013: 3); the MFIs and the financial regulator.

Successful establishment of the IP calls for development of a robust system of information sharing (Hallsworth and Rutter 2011: 8). The study assumes that successful goal alignment and embedment of the broader financial regulation (macro-prudential policies) into MFIs internal strategies and objectives depend on the amount of quality, relevant information available to the central bank (in jurisdiction where the central bank has a dual role in policy formulation and supervision) and the MFIs.

This FMPO model assumes that information has no power by itself; information is the subject of policymaking (Dawes 2010: 379; 383; Cairney 2012) that provides broad general guidance (BoG 2011; 2013). Thus information itself has agency (May 2013: 6), can make things happen on its own, and as a constitute force for parties (Pritchett *et al.* 2012; Cairney 2012: 9), which are the MFIs and the BoG or its agencies in this case. The external configuration accordingly regards this pillar as a constitute force, whilst the firm’s internal structures will regard it as an operational agent, causing untold impact on operations.

According to Hallsworth and Rutter (2011: 8), policy formulation occurs in stages, culminating in policy cycles. The process of policy formulation will then become like a pendulum, swinging back and forth, representing the constitutive perspectives and blended frameworks represented by the external configuration and the information provided by firm internal structures of the MFIs. Both will contribute to the policy formulation (Cairney 2012: 8) to produce a hybrid regulation for the MFIs. This pluralist approach will remove the conflict of non-compliance and rule-breaking, promote cooperation and contribution, (Geyer 2012: 16) and facilitate monitoring.

The agency theory, according to Heracleous and Lan (2012: 227, 229), recognises various stakeholders as a team, thereby making them institutionally sensitive to organisation's activities. Further to this assertion, Freeman *et al.* (2012: 3) maintain the view that stakeholders are most likely to co-operate with other actors (Little 2012: 7) with similar interests; and contend that stakeholder relationships change constantly, as interests change in different contexts. It is this teamwork and cooperation, according to the theorists, which this model seeks to establish, such that interaction (Gong and Janssen 2012) between the supervisor (BoG) and supervisee (MFIs) will improve the implementation, monitoring and supervision activities of both parties. Lack of information and or ineffective communication between the MFIs and the BoG and other regulatory agencies can impede effective implementation of rules by the MFIs.

The social enterprise, such as MFIs, thrives on information (Song *et al.* 2015; Foss and Stea 2014: 109); quality, relevant and timely information offers MFIs competitive advantage over competitors, which are mainly conventional banks engaged in MF activities. The IP will therefore, ensure that the MFIs maintain a central record of their clients, operations, governance, liquidity and other minimum requirement, as well as promote inter-firm communication regarding client reference checks and interactions (Gong and Janssen 2012; Nilsen *et al.* 2013: 6; Nilsen 2015).

It will, as a result, assist the MFIs in complying with their internal operation policies that are embedded with the broader operational guidelines, jointly developed with the external regulator. The IP, as a central repository, and internal monitoring by the MFIs to reduce both aspiration paradox (the desire to continue doing something – in this context, taking multiple loans regardless of repayment capacity of the individual) (Ogbulu *et al.* 2015: 81) that characterise clients' borrowing habits, as well as loan defaults (Addae-Korankye 2012: 138).

With that condition satisfied, the dilemma of "A knows that B knows that A knows that B knows that C is the case" paradox, which assumes that the guidelines are available and that the MFIs are to access these guidelines and comply with them (Foss and Stea 2014) will be eliminated, along with the inducement of self-regulation proclamation that creates uncertainty (Nilsen *et al.* 2013). The assumption is that there will be frequent exchanges of specific information that will promote coexistence and implementation of the existing and new regulations, as well as operating policies for MFIs.

The external regulator of the MFIs will have adequate, reliable data to monitor operations of the MFIs, both onshore and offshore, and garner enough first-hand data to update current banking guidelines peculiar to MFIs, to reflect present dynamic conditions. The MFIs will also have reliable information that will guide and provide adequate support in building their internal structures and ensure their internal strategies are tangential to the FMPs crafted for them. Thus, the constant and continuous information exchange between the two parties and the availability of an accessible database will provide the bridge and establish a common ground for policy formulation and implementation (Hupe 2014; May 2013).

The benefits envisaged include well-established policies, while practical tools will be available for making information sharing legitimate and implementation prudent. Also, a trusted network of relationships (Hallsworth and Rutter 2011: 9) will underlie the process of policy formulation, implementation and information sharing, with roles of MFIs and the regulator and other responsibilities becoming clearer to all participants.

2.3.1.2 Pillar 2: Firm internal structures (configuration)

This pillar explains the organisation of MFIs internal structures. This pillar (Figure 2.3) comprises the MFIs governance system, resources, ownership, and management forms, as well as social values and norms referred to as MFIs 'DNA'.

From a governance perspective and as discussed in the ensuing literature, the role of governance is to bind the whole organisation together, create the relationships needed for growth, and monitor and ensure the direction of the organisation towards its ultimate objective of creating value for its owners. Establishing a good governance system will foster the alignment of management goals to that of the owners (Renders *et al.* 2012: 127) and other policy requirements (Pritchett *et al.* 2012). It will ensure adequate internal supervision and forestall incidences where loan officers contravene firm policies and hence, the broader financial policies of the sector (Freeman *et al.* 2012). Prior discussion disclosed that governance evolves, based on the scale and scope of the enterprise, the industry, as well as the ownership structure of the firm (Dorsey 2014: 63; Desender *et al.* 2012).

Many MFIs in Ghana are owner-managed institutions and thus, the owner's influence in the Board of Directors' (BoDs) decision-making can reduce the ability of the BoD to execute its convergence role as an interface between owners, management and the other stakeholders (Daly 2015; Desender *et al.* 2012). With the presence of a well-organised governance system, MFIs will internalise the existing FMPs and adjust their operational strategies, in order to ensure adequate compliance with all the regulations the financial system prescribes and exact from the subsector. As a result, implementation impediments will not be mentioned.

Renders *et al.* (2012: 128) posit that structural problems of many institutions result from institutional failings, poor governing of risk management, ineffective financial reporting standards, and poor policy guidelines, as well as a weak regulatory environment. This model assumes a strong governance structure, comprising knowledgeable and critically skilled individuals, who will be sensitive to the regulations and embed (Pritchett *et al.* 2012) all facets of sound financial practices in their operational strategies. This will improve implementation and regulatory compliance, marrying firm strategies to the broader financial system. In addition, it will ensure the basic alignment of objectives is secured and instances of rule-breaking (Cieslik *et al.* 2015; Guérin *et al.* 2012: 132) and financial malfeasance that characterise MF practices, will be eliminated.

The second parameter of this pillar describes the resources of the firm. RBT postulates that firm resources can be categorised as financial, human capital and social resources. The theory propounds that these resources, regarded as strategic assets, should be inimitable and difficult to imitate, in order to deliver competitive advantage (Gills *et al.* 2013: 449). While these categories are paramount to MF engagement, this study proposes information as an additional resource that is even more critical in the contemporary market space.

In the determination of financial resources, MFIs are to meet the banking guidelines that prescribe the minimum capital requirement, percentage of total capital that can be loaned, and the quantum of capital that can be given in loan to an individual (BoG 2013), including insider loans and the like. To remain liquid to meet the daily demand of depositors, it is imperative that MFIs maintain banking directives imposed by banking guidelines.

Human resource, according to RBT, assesses how knowledgeable leaders, BoD and employees, are to carry out the operations of the firm. The BoD must be comprised of skilled workers and have the industry-related acumen, to be able to create that relationship needed to foster coherence, avert risk and craft the direction of the firm (Daly 2015: 18). The BoD becomes the headlamp of the entire firm. However, this remains a headache for most MFIs, especially those that are owner-managed. The quality of staff engaged, rests directly on the operational environment and quality of the MFI BoD.

The RBT indicates that identification of resources alone does not offer strategic advantage; rather the ability of management to coalesce these resources in an appropriate manner gives the competitive advantage the firm seeks (Renders *et al.* 2012: 136). The blending of available resources, to create and catch value, therefore depends on the attitude and commitment of management (Hill and Hupe 2015; Hupe 2014). Theory indicates that divergence in the expectations of stake owners and the stake watchers creates agency cost (Song *et al.* 2015). The model presumes that alignment of such individual interests to the overarching corporate goals will be determined by the expertise and vision of management.

Financial resources are imperative for effective and efficient operation of MFIs. Availability of funds determines MF sustainability and the breadth of their outreach to the poor (Kipesha and Zhang 2013; Warue 2012: 45). Notably, in Ghana as well as other sister nations in the sub-region and perhaps the rest of Africa, the eastern block and North America, many MFIs are privately financed. This results in inadequate financial capacity to convey and fulfil their mission. Owner-managed MFIs do not promote good governance, as there is BoD dominance (Desender *et al.* 2012; Rivera-Santos *et al.* 2012) and goal incongruence (Puyvelde *et al.* 2012: 443) between the owner-CEO and staff, as well as the overall purpose of the MF programme.

The financial sustainability argument was based on the inability of MFIs to financially sustain their operations (Moss *et al.* 2014: 39; Mokhtar *et al.* 2014: 55). However, one question remains unanswered: How will excess funds be applied, should management lack prudential skills and proper governance in the use of finance? This critical question links directly with the need to establish strong and vibrant governance structures to craft the direction of MFIs.

The social or physical resources perspective of this pillar, in the context of this study, comprises the communication infrastructure with which the firm works. Unfortunately, many developing countries, and for that matter the emerging economies do not have adequate communication infrastructure to support businesses, to say the least. It takes MFIs internet connectivity and other communication protocols to ensure correspondence among the sector participants. Again, good governance and management expertise can create this platform, which will add to the strategic assets of the MFIs. This study observes that good information structure will promote information sharing (Hallsworth and Rutter 2011: 18; Cairney 2012: 10) that will both enhance governance, management and the entire MFIs' activities, as well as create value for the individual firms.

For BoD to function and eliminate information asymmetry and build sound relationships for management to function, understand the goals of the MFIs and align their interest, a communication system is imperative. This is also required to combine various resources to ensure coherence and improve performance and good social infrastructure, in this context. The problem of goal incongruence is largely due to misunderstanding and pursuance of self-interest (May 2014: 8); such improved communication (Hallsworth and Rutter 2011: 18) will thus curb this situation. It is therefore hoped that management ability to secure this infrastructure and proper blending of such with other logistics, will strengthen the firm internal structure. This will, in turn, ensure that all management functions, and operational staff activities, will be consistent with strategies and broad objectives embedded with the baseline financial rules and regulations.

In the study's context, IPs will primarily govern issues of safety, trust, security, and ownership rights, as well as participation, record keeping and dissemination (Wilkinson and Frost 2015: 685; 686) of accurate, comprehensive and consolidated information on the full range of MFIs' activities and risk-management procedures. The argument of lack of data to monitor and formulate policies for MF will then be void. In short, the MFIs' quality of resources will determine their bid to compliance and ensure effective implementation of financial regulations.

The ownership aspect of pillar two was identified as one factor that still poses a problem to governance and management (Addae-Korankye 2012: 138). Most MFIs are privately financed, with the financier being the CEO. Therefore, privately-owned MFIs can find it difficult to establish good governance, garner strategic assets due to limited knowledge and skills of the owner (Addae-Korankye 2012: 139), and deploy its resources in a manner that will offer such opportunities to yield competitive advantage. Hence, many MFIs employ resources (staff) that can be described as a *strategic liability,* due to their malpractices and non-compliance to regulation being value reducing to the MFI. Ownership structure is explained as a determining factor of governance (Boateng and Boateng 2014: 11; Addae-Korankye 2012: 138).

This study explores a situation of governance structure devoid of owner(s) influence and where the management team is only directed by the BoD. This results in a situation where a *modus operandi* is established by the MFI from inception, the interest of parties is aligned and where the BoD and management will constantly review policies, in order to conform to the hybrid financial regulations and maintain firm operations within the set rules.

The researcher is of the view that even with one branch MFI solely financed by one person, as is the case in many instances, there needs to be a governing body of specialised skill to assist the owner-manager in decision-making (May 2013: 8), strategy formulation (Hallsworth and Rutter 2011: 18), as well as implementation of financial regulations for compliance and sustainability; though this might not be the choice of owner-managed MFIs.

The last element of this pillar, social values and norms, has to do with the operational environment – the clients. As discussed earlier in the theoretical framework, the problems of society present an opportunity for the social entrepreneur; problems he seeks to solve but at a profit (Abhi *et al.* 2015; Doherty *et al.* 2014; Santos 2012: 338). The clients' social values directly determine the mode and strategies to satisfy their needs, as these values determine the way of life of the people.

The social entrepreneur (MFI) must capture these values (Mokhtar *et al.* 2014: 54) in their operational strategies, which requires visionary BoD and management acumen to blend all stakeholder interests and to create product packages that meet individual stakeholder demand. This necessitates operating within the dictates (Gong and Janssen 2012) of the operation guidelines (the hybrid regulation) regulating MFI activities. To ensure this, adequate flow of information cannot be disregarded.

2.3.1.3 Pillar 3: External configuration

This pillar looks at the position of the financial system regulator, notably the national bank and allied institutions or agencies. In Ghana, the Ministry of Finance and Economic Planning (MoFEP) and the Security Exchange Commission (SEC) are arms that help ensure sound and legal practices in the financial system. The BoG, as in all other countries around the globe, is constitutionally mandated to regulate the financial sector. The pillar also looks at the Banking Act of 2004, Act (673), the Non-Bank Financial Institutions (NBFI) Act of 1993 and various BoG banking operation guidelines that serve as the tool to license and regulate all institutions involved in any kind of financial dealing with the general public (BoG 2012).

The financial regulator dwells on these legal frameworks to craft the direction of the entire financial system, in order to prevent any inappropriate activities in the sector. The financial system, the third element of the external configuration, is highly dynamic, with constant changes occurring as the macro-economic environment changes. This means macro-economic (in other words, macro-prudential) policies have a direct impact on the operation guidelines the regulator will institute, in consultation with major stakeholders. Studying the macro-economic environment and crafting such policies *pari pasu,* the legal frameworks and policies (monetary policy, macro-prudential policy, micro-economic policy) and management expertise put the external structures in shape.

The regulatory, supervisory and monitoring role of the national regulator devolves from the foregoing factors. To carry out its supervision and monitoring mandate calls for skilful human capital and communication infrastructure. This model observes that creating a separate department (sentry) housing all logistics – human and physical – in adequate proportion and having closely monitoring timelines, as well as a patrol team, will put the observed (MFIs) on their toes. Sound structures in the external regulator perspective that ensure regular on-shore and off-shore monitoring and supply of adequate feedback on activities carried out, will provide critical, relevant information that could be factored into future updates (Cairney 2012: 9; May 2013: 11) of operating guidelines (hybrid regulation) for MFIs.

It is therefore, clear and urgent that the financial regulator has adequate logistics to curb rule-breaking MFIs and essentially identify illegally operating MFIs (Zahra *et al.* 2013; Cieslik *et al.* 2015; Foss and Hallberg, 2014), whose activities become a liability (Freeman *et al.* 2012; Warneir *et al.* 2013: 1362; 1363) for the entire financial system.

To facilitate monitoring, operationally described here as any collection of information by the regulator in this agency relationship, whether for supporting direct incentives or for setting limits on MFIs' behaviour, this model is of the view of a sentry (represented by the IP) given full powers to ensure adequate compliance (Levine 2015: 42; 52) is maintained. The sentry will not make rules, with its main goal to communicate information, define monitoring parameters, collect data and analyse such information, as well as advise the financial regulator.

Thus, the sentry plays mediating agency between the policy maker (BoG) and the MFIs. The sentry will be an informed, expertly staffed and independent (Levine 2012: 42) arm of the BoG; instead of the current MF monitoring division under the Other Financial Institutions Supervision Department (OFISD) of the Bank of Ghana. The sentry will evaluate the hybrid financial regulations from the MFIs perspective and have a system associated with selecting, enforcing and advising (Levine 2012: 43) the MFIs on the reform of the financial policies. This will be done by providing critical analysis of contemporary issues regarding the MF sector; by inviting input from the 'street-level bureaucrats'; the sentry will be parallel to the MRA of Bangladesh.

In this regard, delegated authority is created to oversee the MF sector, as practiced in Bangladesh, India, Bolivia, South Africa and Mexico (Rahman and Luo 2012: 1019). This will ease pressure on the BoG because the sentry will enjoy quasi-autonomy, in terms of defining the effectiveness and efficient use of resources allocated for the purpose, even though it has a direct reporting responsibility to the regulator.

An important aspect of the coordination process rests on the information flow and sharing between the responsible institutions or parties, to promote policy formulation-implementation-reformulation cycle. The sentry will coordinate between entities in charge of micro and macro-prudential regulations on the one hand, and between macro-prudential policies and other macro-economic policies on the other hand. This will facilitate information-sharing among all stakeholders and continuously contribute to improving the quality of financial data available to policy-makers, while providing analytical support (Levine 2012: 42) to aid policy decision-making processes engaged by the *bona fide* regulator.

2.4 Conclusion

This chapter vividly examines the criteria that make MFIs social enterprises. The chapter reviewed policy formulation and implementation strategies and process and identified the various determinants for successful MF policy implementation and regulation compliance. The conceptual framework addresses the means of developing MF sector-specific regulation that involves all stakeholders in the policy formulation process, citing information as a relevant ingredient in the process. It concludes on the need to have a separate regulatory authority for MFIs in Ghana, as it is practiced in countries such as Bangladesh, India, Bolivia, South Africa and Mexico, where there are delegated regulatory authorities to make regulations and supervise the MFIs, while the remaining financial institutions are regulated by the country's central bank (Rahman and Luo 2012: 1021).

The next chapter presents the literature review that builds on the theories and concepts presented in this chapter; together, they provide the baseline assessment of the research enquiry.

CHAPTER THREE

LITERATURE REVIEW

3.1 Introduction

The empirical literature review is a directed search of published work, which includes books, journals, articles and periodicals, according to Zikmund, Babin, Carr and Griffin (2013). It is therefore, a comprehensive survey of previous inquiries related to the research questions. Kim (2015) concludes that, through the use of a systematic approach to previous scholarly work, the literature review allows a researcher to place his research work into an intellectual and historical context; that is, it enables the researcher to declare why the current research matters. Kim (2015) further states that a good review of the literature is a fact-finding and fact-checking mission, providing research focus and helping to appraise, compare and contrast, as well as encapsulate all sources directly relevant to the current research.

This chapter presents relevant literature on the topic of this study. The section reviews studies previously done on MF in general; particularly evolution, characteristics of MF, governance, and types of regulation, as well as challenges of the MF sector, among others.

3.2 Definition of concepts

3.2.1 Microfinance

In academic literature, MF has been defined in a variety of ways, with extending financial assistance to the poor a common element. It is, particularly, providing financial services to the poor and very poor, low-income and self-employed clients (Otero 1999: 8 in Boateng and Boateng 2014: 11; Addae-Korankye 2012: 138) who are also engaged in IGA (Ledgerwood 1999). This definition agrees with the stance of UNDP Microstart (1997 in Addae-Korankye 2012: 135) that MF is the provision of credit, and other financial services, such as saving and insurance, to micro, small and medium scale enterprises.

According to Kipesha and Zhang (2013), MF is the provision of financial services to poor households, as a means of assisting poverty alleviation programmes in communities. In their words, Mbugua and Makori (2014: 74) identify MFIs as “pillars to development of small businesses and growth of the informal sector”, a cause of starting new business and source of another productive work (Iqbal, Iqbal and Mushtaq 2015: 488).

MF is a financial service, such as a savings account, insurance coverage and credit provided to poor and low-income clients, in order to assist in raising their income and thereby improving their standard of living (Haileselasie, Madhu and Rao 2014: 21). Providing formal financial services to poor and low-income people, as well as others that have been systematically excluded from the financial system, is referred to as MF by CGAP (2011). In addition, the CGAP mentions the use of the term “microfinance” as not being limited to a range of credit products (for business purposes, for consumption smoothing, to fund social obligations, for emergencies, and so on), but also incorporating savings, money transfers (payments and remittances), and insurance. However, microcredit still looms large in the self-image of most providers (CGAP 2011), who identify themselves as MFIs.

Microcredit, which involves microloans, is typically much smaller than a conventional bank loan (Kipesha and Zhang 2013; Addae-Korankye 2012: 139), although there is no universally agreed maximum. With occasional exceptions, the loan has either no collateral or unconventional collateral (Kipesha and Zhang 2013; Addae-Korankye 2012: 139) that would rarely cover the lender’s loss, should the client default (Addae-Korankye 2012: 138).

In other words, the borrower is typically self-employed or informally employed (not salaried) and the lender, as a rule, uses common micro-lending methodology (CGAP 2011). Key to these definitions is ‘financial services to the poor' (Iqbal *et al.* 2015: 487). It is a developmental tool and alternative financial strategy (Iqbal *et al.* 2015: 487) to empower the active poor to access credit, at an affordable rate (Boateng and Boateng 2014: 12). Notwithstanding this, MF charges the highest interest rates (Boateng and Boateng 2014: 12) because they predominantly fall in the grey area of often not requesting collateral deposits from borrowers.

In the Ghanaian context, MF encompasses the provision of financial services and the management of small amounts of money, through a range of products and a system of intermediary functions targeted at low-income clients (Boateng 2015: 53). MF refers to the provision of small loans and other facilities, such as savings, insurance, and transfer services, to poor, low-income households and micro-enterprises (Amoah 2008 in Addae-Korankye 2012: 135; 137).

By extension, MF is the provision of small loans to the unemployed, the poor, entrepreneurs (Iqbal *et al.* 2015: 487) and others living in poverty (Kipesha and Zhang 2013). These people are normally considered 'unbankable' by traditional finance institutions, in view of their lack of collateral security, unsteady employment and unverifiable credit history, which simply disqualifies them from access to credit in the traditional/conventional banks.

In the context and construct of this study, however, MF is the concept of promoting financial inclusion of the poor, who have pitiable access to finance from formal financial institutions, due to reasons that include lack of collateral.

3.2.2 Microfinance institutions (MFIs)

Institutions that provide micro financial services are referred to as MFIs (Boateng and Agyei 2013: 154). MFIs are formal institutions; whose primary business is that of providing financial services to the poor (CGAP 2003; Ali 2015a; 2015b). Financial services for the poor encompass savings, credit, payment and transfer services, and insurance (CGAP 2009; Addae-Korankye 2012: 135). Providers of these services include NGOs; savings and credit cooperatives; private- and state-owned banks; as well as postal banks; member-owned community organisations; and nonbank intermediaries, such as finance or insurance companies; along with other suppliers, such as agricultural traders (CGAP 2003). According to Ali (2015a), the Central Bank of Kenya (CBK) defines a MFI as an institution that offers financial services, such as credit, savings, insurance, and money transfer services, to the poor, low-income households, and Small and Medium Enterprises (SMEs) that do not qualify for, and therefore lack access to, traditional, formal financial institutions.

Vishwakarma (2015: 80-89) posits that MFI refers to any individual or company accredited or registered to carry on the business of MF services, such as loans, savings, insurance, fund transfer and other financial services needed by micro- and SMEs. In Boateng's view (2015: 53), it is an institution that acts as financial intermediary to bridge the gap between mainstream financial institutions and low–income households.

The definition that MFIs are those that provide thrift, credit and other financial services and products of very small amounts, mainly to the poor in rural, semi-urban or urban areas, is furthered by Vishwakarma (2015a: 81). MFIs enable the poor to raise their income levels and improve their living standards (Haileselasie *et al.* 2014: 21). It is held by Obisesan *et al.* (2015) that the provision of small, non-collateralised loans differentiates MFIs from conventional financial service providers.

In Ghana, the term MFIs is understood to describe a sub-sector of the financial sector, comprising most different financial institutions that use a particular financial method to reach the poor (Boateng 2014; 2015: 53). MFIs therefore serve as pillars to the development of small businesses and growth of the informal sector (Mbugua and Makori 2014: 74; Iqbal *et al.* 2015: 488).

Nonetheless, MF in Ghana tends to concentrate on microloans, which typically involve scored lending to salaried people (Boateng and Boateng 2014: 12; Addae-Korankye 2012: 136).

3.3 Overview of MF

The history of MF can be traced back several centuries in Africa and around the world, according to Tripathi (2015: 292). The author indicates that people, in those era, use moneylenders that usually charge high interest rates on loans to satisfy their financial needs (Tripathi 2015: 292; 293). As stated by Etzensperger (2012: 9) and the Economist Intelligence Unit (2012), savings and credit groups were variously known; especially *Chit* Funds in India, *Arisan* of Indonesia and *Tontines* of West Africa. Etzensperger (2012: 3) indicates that the MFIs in Peru are domestically funded and according to the Economist Intelligence Unit (2012), Peru was ranked the best environment for MF in the world. Tripathi conjectures some global examples of MF in his report, ranging from credit cooperatives in Indonesia in the 19^{th} century, to informal, small-scale, rotating savings-and-loans clubs in England, Ireland, and Germany during the 18^{th} century (Tripathi 2015: 293).

This section explores two perspectives: the global view of MF and MF in the African context.

3.3.1 Microfinance: Global overview, regulations and supervision

MF exhibits similar characteristics worldwide in addressing the poor to promote and deepen financial inclusion (Reiter and Peprah 2015: 434; Llanto 2015). Across the globe, though naming might seem different, MFIs are categorised as informal, semi-formal and formal (Mago *et al.* 2013: 264; CGAP 2012; Ojo 2013: 3). While the informal and sometimes the semi-formal are not prudentially or formally regulated, the formal category is fully regulated in all countries (CGAP 2012). Literature identifies five means of regulating MFIs: no regulation, self-regulation, delegated supervision, and existing law, as well as special regulatory policy for MF (Macchiavello 2012).

Formal MFIs are generally registered and regulated by the reserve bank of the individual countries. MFIs in Bangladesh are required, by law, to register with the Microfinance Regulatory Authority (MRA) and any other apex institution (Marr and Tubaro 2013: 38; Magali 2014: 264; 265). The MRA had, by May 2014, issued license to 698 MFIs (MRA 2006), which are legal institutions for MF operation (Chowdhury 2014: 445; Khalily, Khaleque and Badruddoza 2014: 7). Chowdhury (2014: 446) further noted that 44 MFIs were closed by the MRA in Bangladesh in 2014, for either non-compliance or failure to meet the minimum requirements for registration and licensing. The MRA has become an established role model for MF regulation, due to its distinct characteristics and operation. It has a separate governing body with the governor of the central bank (Bangladesh Bank) as its chairman. While this makes the MRA independent, it helps the central bank to establish linkage between the formal credit market and microcredit market (Khalily *et al.* 2014: 8).

The MRA, as well as the authorities in China, promulgated various policies to promote the MF sector in their respective countries (Rahman and Luo 2012: 1024; 1022). Apart from Bangladesh, other mentionable countries that have a strong regulatory framework for MFIs include Peru, the Philippines, Bolivia, and Bosnia, as well as Mongolia, Cambodia, Nicaragua, and Sri Lanka, along with Colombia, Mexico and India (Bateman 2015b), including China (Rahman and Luo 2012: 1024). According to Magali (2014: 268), no effective and mandatory regulatory framework for MFIs exists in Asia, Ghana and China, respectively.

In comparing Tanzania in Africa and Peru in Latin America, Marr and Tubaro (2013: 45) intimate that the MF sector in Tanzania, as indicated earlier, is regulated and supervised by the bank of Tanzania (BoT), while Peru has constituted an independent institution (Pierce 2013: 135), likened to the MRA of Bangladesh, to regulate the financial system, including MFIs. The Peruvian

Superintendencia de Bancos y Seguros (SBS) spans its mandate from legislation, regulation, supervision (onsite and offsite inspections) and determination of specific methodologies for its MFIs (Pierce 2013: 135, 138; CGAP 2012).

In effect, the SBS laid the regulation for the entire financial system in Peru, while maintaining specific requirements for the MFIs (Marr and Tubaro 2013: 38). Peru and Bolivia are shining examples because they first strengthened the regulation of the commercial banks, to facilitate the close regulation and monitoring of the MFIs. Hence, the primary responsibility for monitoring and enforcing regulation lies within the organisation or an apex organisation; a hybrid approach that further re-enforces the specificity in terms of crafting regulation (CGAP 2012) for the MFIs.

In the Philippines, there is proportionate regulation for MFIs (Llanto 2015), where the prudential norms regarding capital requirements, loan provisioning, reporting and loan documentation, among others, to conform to the specialised characteristics, are coupled with maintaining a balance between costs and benefits (Posner and Weyl 2013: 2) of the regulation. According to Llanto (2015), a number of bodies collaborated to craft a regulatory framework – the National Strategy for MF- specifically suitable to the MF environment. The national bank, Bangko Sentral ng Pilipinas (BSP), adopted a risk-based approach in supervising the MFIs in the Philippines (Llanto 2015). However, overseeing the MFIs is a collaborated effort of the BSP and the National Credit Council, an independent body that seeks to promote effective monitoring and enhance the capacity of MFIs in the Philippines (Llanto 2015).

The Philippines' move to craft such a policy (Llanto 2015) conforms to CGAP's (2012) assertion that some prudential norms developed for conventional banking, have no fit with the risks and requirements of MF, due to their specific characteristics. As stated earlier, Zimbabwe and Malawi followed similar steps to craft MF-specific regulations (Makuyana 2016: 377; 378) to promote the development of the financial subsector.

Despite the laudable efforts by the Philippines and other mentionable countries, Rahman and Luo (2012: 1023) contend that MFIs in the Philippines, Indonesia and Ghana fail to comply with the regulations and the operating guidelines.

In all the jurisdictions mentioned, the regulator, whether independent or otherwise, is concerned with risk-based monitoring (Ojo 2013: 7): credit, liquidity, operational, reputational, and interest rate risks, among others, and how the MFI deals with them, rather than with documentation (Macchiavello 2012). On the contrary, the National Bank of Cambodia (NBC) regulates MFIs from a resource-based perspective (Chowdhury 2014: 445). The NBC focuses on corporate structure, good governance and human resource development, as criteria to regulating the MFIs (Chowdhury 2014: 445).

3.3.2 Comparative regulatory features of MFIs in some selected countries

Table 3.1: Comparative regulatory features of MFI across advanced participating countries including South Africa

					Country				
Features	**Bangladesh**	**Cambodia**	**China**	**Pakistan**	**India**	**Indonesia**	**Vietnam**	**Bolivia**	**South Africa**
Type of institution	NGO-MFI	MFI	Microcredit company	MF Bank	MF organisation	MF Bank	MFI	Private Financial Fund	NGO-MFI
Registration	Microcredit Regulatory Authority	National Bank of Cambodia	China Bank Registration Commission	State Bank of Pakistan	NABARD	Bank Indonesia	State Bank of Vietnam	ASFI	National Credit Authority and MFRC
Incept. year	2006	2000	2008	2000	2011	2006	2010	1995	1999
Act/ Decree	MRA 2006	NBC registration 2000	MCC guideline 2008	MFB Ordinance 2000	Credit Bill for MF 2001		SBV decree	Supreme decree No. 24000	MFRC, Usury Act 1999
Licensing	1 million clients or outstanding loan of US$54054	Outstanding Loan of US$250000, 1000 clients	Min. Capital >¥5 m	Experience, Capital US$11.75	Existing MFO submit application to NABRAD	Equity min. US$100000	Min. Capital US$313000	5 shareholders, min.capital US$1m	Min. 100 agreements, outstanding loans >R50 000
Owners	No ownership		> 50 shareholders	Individual or group	Defined	Individual or group	1 -5 members	5 judicial or normal persons	Juristic persons or Individual
Capital Requirement	15% liquid on deposits	5% reserve req., 5% capital, 15% solvency ratio, 50% liquidity ratio	Registered capital >¥5 (US$759575)	CAR 15%, liquidity 5%, Reserve ratio 20%, Deposit protection fund 5%	Minimum reserve fund 15%	Paid up capital of US$50000-200000; min. 50% as working capital	Capital of US$313000; Position at max. 5%	Registered capital of US$1 million	Registered capital >R500000
Services Registered	Loan, Deposit, Insurance	Restricted first 3yrs deposits	Only loan	Credit and deposit	Loan, Deposits	Deposits, Loans	Loans, Deposits, Insurance	Loans, Deposits. Restrict first 3 months	Loans, Deposits
Fundraising	Commercial, Wholesale	Deposits, Commercial funds	Equity Debts, Investments, Donations	Deposits, Commercial funds	Equity funds, Deposits	Commercial source, Deposits	Commercial sources	Commercial sources, Deposits	Commercial sources, Deposits
Maximum Loan cap	US$428	US$130	Max. 5% to individual	US$1,750	US$260	US$500	US$200	US$5000	N/A
Supervisory Mechanism	Regular report to the MRA, onsite and offsite supervision	Monthly report to NBC on assets, loan portfolio, liabilities	Onsite and offsite supervision, internal control	Report to SBP, Disclosure of lending and Deposits	Onsite and Offsite, regular report to NABARD	Onsite and offsite	Report to SBV; onsite and offsite visits	Onsite and offsite ASFI; client complains	Onsite and offsite by NCR; Complain to NCR/MFRC

Note: Adapted from Rahman and Luo (2012).

3.3.3 Conclusion on world MF context

Inferring from the literature, the central bank of many countries takes on the supervisory and regulatory role of the MFIs, while in others, a separate authority (existing authorities or newly created authority/networks) are empowered and or delegated powers of regulation and/or supervision (Macchiavello 2012). Bangladesh (MRA), India, Bolivia, South Africa (MFRC) and Mexico have delegated regulatory and supervisory authority to such a separate entity (Rahman and Luo 2012: 1025); for instance, the MRA and MFRC of Bangladesh and South Africa, respectively.

The global scenario shows that some countries are more advanced regarding MF regulations (Ojo 2013), while others are at the stage of gathering experience, in order to fit the regulations into their own context of creating an enabling environment for the MF sector.

3.3.4 MF: Africa overview

In his exploration of the evolution of MF in India, Tripathi (2015: 293) chronicled the 16th century pawn shops, the Irish Loan Fund System on which collateral was the basis for a loan in the 18th century, the Financial Cooperatives, a non-collateral based loans in the 19th century, particularly the Germany and Indonesian People's Credit Banks and Self-Employed Women's Association Bank (SEWA).

In Africa, Tripathi notes Nigeria, where MF activities termed 'Susu' in Yoruba can be dated to the 15th century. However, the formalisation and ultimate recognition of the scheme began in the 1990s (Tripathi 2015: 292; Etzensperger 2012).

The spread of the new concept of extending finance (MF) was encouraged by the success story in the 1970s and 1980s (Tripathi 2015: 292; 293; Etzensperger 2012). The following, according to Tripathi (2015: 298), Grameen Bank Bangladesh, the *unit desa* system of Bank Rakyat Indonesia, ACCION International in the United States and Latin America, and PRODEM, BancoSol's predecessor in Bolivia, deserve a special mention in the current evolution (Tripathi 2015: 298).

In Africa, as in the world, MF is categorised into three: informal, semi-formal and formal. The type of MFIs in each category is dovetailed in the table below:

Table 3.2: Classification of MFIs

Informal institutions	Semi-formal institutions	Formal institutions
Money lenders	NGO MFIs	Rural banks
ROSCAs	SACCOs	Commercial banks
Stokvels (South Africa)	Co-operatives	Savings and Loans (Ghana)
SACCOs (Eastern Africa)		

Source: From literature review for this study.

Based on each country and jurisdiction, these categories are organised differently in various countries in Africa, although the concept of MF remains the same. The self-help group model of MF operations in particular is replicated across Sub-saharan African countries, such as Kenya, Tanzania, Malawi, Ghana, and Namibia, as well as Lesotho, Swaziland, Mozambique, Zambia, and Zimbabwe, to mention a few (Mago *et al.* 2013: 263; 264).

Apart from being informal, semi-formal and formal (Ojo 2013: 5), MFIs are regrouped as deposit-taking MFIs, which include many of the semi-formal institutions, all of the formal MFIs, and non-deposit taking financial service providers. According to Ali (2015a: 124), the deposit-taking microfinance institutions (DT-MFIs) are licensed and regulated by the Central Bank of Kenya (CBK) and are permitted to mobilise and intermediate (or lend) deposits from the public. However, unlike commercial banks, DT-MFIs are restricted to certain activities (Ali 2015a: 124; 125; Segun, Hussein, Daniel and Olajide 2015: 79). The non-deposit taking MFIs are, however, termed ‘credit only’ MFIs, as they are not permitted to accept deposits from the public (Segun *et al.* 2015: 79, 83).

3.3.5 Registration of MFIs in Africa

Most MFIs are registered by various bodies. In Kenya, the Association of Microfinance Institutions (AMI) registers all participants in the industry, while the MFRC registers MFIs in South Africa (Segun *et al.* 2015: 79). In other jurisdictions, including Zimbabwe, the reserve bank undertook the registration and regulation of MFIs (Mago 2013) until 2013 when a specialised Act for regulating the MFIs was implemented; in the case of Zimbabwe.

In Zimbabwe, the Reserve Bank (RBZ) appointed a registrar who administers the registration and cancellation of licenses of non-performing MFIs (Njaro *et al.* 2013: 433; Makuyana 2016: 378, 380), based on the directives of the board of the RBZ, while the RBZ maintains its guardian role (Makuyana 2016: 378). Such is the case of Uganda and Mozambique in Africa and Bangladesh in India, as well as Bolivia and Peru in Latin America (Makuyana 2016: 377; Katwaroo-Ragbir 2013: 191).

In all these jurisdictions in Africa, MFIs are also expected to register with one or more apex body; depending on the category of institution it is. Hence, the ZAMFI of Zimbabwe, NAMFB of Nigeria, the AMI and SACCOs of Kenya and Tanzania and GAMC of Ghana, are formidable apex institutions that assist in the monitoring and promotion of capacity building for their respective member institutions. However, AMIZ of Zambia does not have the same fate (Siwale and Ritche 2013). The trend of registering with an apex institution, as a prerequisite to obtaining a license to operate, is to foster supervision and enhance capacity development in the MF sector.

The tier operating system of registration is applied in most countries in Africa and Latin America. Kenya operates a-three-tier system and Ghana has a-four-tier system, defined by their respective guidelines and Bills (BoG 2011; 2013; Ali 2015a: 126).

In Ghana, Tier 1 institutions are the conventional banks, regulated by the banking law, with Tiers 2, 3, and 4 being the MFIs, Moneylenders and Susu collectors. The tier categorisation is to ensure asset security and product offering of the MFIs. Tanzania and Uganda also use tier system regulation (Schmidt 2015: 167; 168), both in regards to capital requirements and the type of services to provide. According to Chowdhury (2014: 443; 446), the tier regulatory framework in Uganda divides the MFIs into four categories and MFIs graduate from one tier to the next, when they meet specific, regulatory requirements.

The distinguishing element of tier categorisation is the minimum capital requirement and ownership structure for registration in all countries, both in Africa and the rest of the world, where the tier system is adopted (Bog 2011; Ali 2015a: 125). The categorisation has been criticised by many jurisdictions, as with the ambiguity that characterised the deposit-taking and non-deposit taking split (Reiter and Peprah 2015: 434). According to Makuyana (2016: 379), these categorisations only created the opportunity for illegal activities in the sector, as cross-tier activities became difficult to detect (Boateng and Boateng 2014).

3.3.6 MF Regulation in Africa

Most MFIs in Africa are regulated and supervised by the individual country's central bank: Nigeria (CBN), Egypt (CBE), Kenya (CBK), Uganda (BoU), and Zimbabwe (RBZ), are but a few examples (Khalily *et al.* 2014: 7). The central bank licenses the MFIs in these countries (Mago 2013), while in South Africa, however, the MFRC carries out all the supervisory activities by conducting random off-site and on-site inspections on the MFIs (Segun *et al.* 2015: 79; 81).

Though the existing banking laws, or a modified version, referred to as ‘hybrid’ (Macchiavello 2012), are mostly used as the base of regulating the MFIs (Khalily *et al.* 2014: 7; Llanto 2015), some of these authorities, for example South Africa, use their banking supervision department to carry out the mandate (Segun *et al.* 2015: 79). In Zimbabwe, on the other hand, the registrar appointed by the RBZ, after the specialised act for MFIs was passed, carries out the mandate of the Act, as well as other directives of the board of the RBZ (Makuyana 2016: 376-385; Njaro *et al.* 2013: 433). It can be inferred that the ultimate control of the central banks of various countries is to ensure close supervision and strict implementation of MF regulations, in order to promote sanity in the MF sector, as well as financial soundness of the MFIs.

Regulation of MFIs across Africa is made up of either no regulation, self-regulation, or non-prudential and prudential (Segun *et al.* 2015: 78; 79). While many MFIs remain illegal and thus obviously have no regulation, self-regulation (SRO), with some level of a non-prudential element and a hybrid of non-prudential and prudential regulations, can be found (Macchiavello 2012). SRO of the MFIs is organised through individual country’s MF apex institutions. Egypt has dual umbrella institutions - Egypt Microfinance Network (EMFN) and Egypt Microfinance (EMF), however, according to Segun *et al.* (2015: 77), Egypt lacks critical MFI compliance and self-regulation.

The situation in Kenya is not different from Egypt and Tanzania, essentially because the formal regulator, CBK, overshadows the efforts of the AMI in Kenya (Ali 2015a: 125; Segun *et al.* 2015: 79). Kenya has not unified the regulatory and supervisory framework for its MF sector, which is broadly categorised as deposit-taking and non-deposit taking MFIs (Ali 2015a: 124; 2015b). Ali further states that deposit taking MFIs in Kenya are regulated by the CBK, and are organised as in the rest of Africa and the world, except where a separate institution is responsible for regulating all MFIs, as in Bangladesh, South Africa, Peru and the Philippines (Ali 2015a: 126).

Non-deposit taking MFIs are regulated by the MF unit of the Ministry of Finance, as in the case of Ghana. Ali (2015b: 79) asserts that Sudan (as for Pakistan) with an Islamic model of MF, does not differ from the rest of Africa. However, the central bank of Sudan (CBS) established an Islamic MF unit as a supervising structure, to implement the rules and regulations relating to Islamic MF (Ali 2015b: 76).

Tanzania, according to Magali (2014), employs a number of Acts, including the Banking and Financial Institutions Regulations Act of 1997, to regulate and supervise MFIs. This age of the Act indicates how irrelevant the legal instruments are to the contemporary issues confronting MFIs and the SACCOs in that country. Magali therefore notes the ineffectiveness of a regulatory system for the rural SACCOs in Tanzania (Magali 2014: 264).

Nigeria's case is exceptional. The Association of Microfinance Banks (NAMFBs), Association of Non-MFIs of Nigeria, and the Chartered Institutions of Bankers of Nigeria, which collectively register the MFIs in Nigeria and make representations to the CBN to enhance the standard of regulations (Segun *et al.* 2015: 80). These apex associations promote high self-regulation, uniform standards, transparency and good CG of MFIs in Nigeria (Segun *et al.* 2015: 80).

In South Africa, Segun *et al.* (2015: 81) note in their comparative studies, that the country has a well-established institution for regulating MFIs. The MFRC is mandated to register all institutions engaged in MF activities in South Africa. Segun *et al.* (2015: 81) further state that a country's regulatory standard, approach to regulation, ownership structures and governance, as well as reporting and risk management, serve as appropriate criteria to compare how MFIs are regulated in Africa.

3.3.7 Special regulation for MF-specific activities in Africa

Special law regulation for MFIs is considered in Kenya, Nigeria and South Africa but Segun *et al.* (2015: 81) argue that maintaining self-regulation, with the existing banking laws (Khalily *et al.* 2014; Llanto 2015) of the respective countries, proves more efficient than crafting entirely special, MF-specific laws. However, Zimbabwe, Mozambique and Uganda, like the Philippines, have successfully enacted a special law for their MFIs (Makuyana 2016: 376-385; Katwaroo-Ragbir 2013: 191) to ensure there is specific regulation tailored to the relative environment of the MFIs in this country (Njaro *et al.* 2013: 435). This regulation adjusts prudential norms regarding capital requirements, loan provisioning, reporting and loan documentation, among others, to conform to the specialised character of MF (Llanto 2015).

In all countries, both in Africa and the rest of the world, the regulatory authority issues entry requirements (BoG 2011; 2013), such as minimum capital requirements, ownership structure, and feasibility studies, as well as the capital to asset ratio, as key criteria for registration to ensure only financially healthy institutions join the marketplace (Ali 2015a: 124). This preventive measure promotes and restricts entry of unscrupulous and illegal operations in the sector. However, as a protection to the funds of the depositors and to forestall the occurrence of the suicide crisis that bedevilled Andhra Pradesh in the 2000s (Siwale and Ritchie 2013; Arjun 2015; Riquet and Poursat 2013), many countries resort to the creation of deposit insurance (Khalily *et al.* 2014: 9), as a means of bailing out MFIs that eventually fail and are failing (Ali 2015a: 126).

Current incidences of collapse and the rampant closure of numerous MFIs in Ghana, as well as the subsequent loss of deposit by innocent clients, are an indication that Ghana does not apply deposit insurance for its MFIs (MicroCapital 2013).

Unlike India, Peru, Bolivia, the Philippines and many other countries, supervision and monitoring of MFIs in Africa remains largely the jurisdiction of the central banks of the individual countries. This is widely criticised (Njaro *et al.* 2013: 426) because the central banks are inundated with numerous tasks in their mandate (Wampah 2012; Njaro *et al.* 2013).

The implication is that the respective departments will lack control over the MFIs, hence implementation of the relevant financial policies and supervision and monitoring will suffer. Other authors (Ali 2015a: 124; Njaro *et al.* 2013: 428; Makuyana 2016: 382) therefore posit an independent body to carry out the duty of supervision and monitoring of MFIs (Macchiavello 2012) in developing economies, including Ghana; as portrayed in successful MF jurisdictions in advanced countries, as well as in Bangladesh. This independent body will ensure adequate compliance with the FMPs and promote stability in the MF sector (Njaro *et al.* 2013: 433; Makuyana 2016: 380).

In Sudan, however, according to Ali (2014), the Department of Banking Supervision of the CBS formulates policies and operating guidelines for regulating MFIs in that country. The literature further indicates that policy formulation for MFIs is a collaborated effort between the department and the MF Unit that coordinates the MFIs. A peculiar thing of Sudan, is that the country also instituted a supervision structure, the Islamic MF Unit, to carry out the oversight of implementing MF rules and regulations issued by the CBS (Ali 2014).

Apart from African countries cited earlier, MF in other countries in Africa comprise mainly the French-speaking West and Central African nations of eight and six countries respectively, representing a fifth (20 percent) of the MF sector in SSA (Riquet and Poursat 2013). The West African Economic and Monetary Union (WAEMU), representing MFIs in the French West African nations, and the Central African Economic and Monetary Community

(CEMAC), which also represents MFIs in the French Central African nations; these countries are dominated by depositary MFIs (Riquet and Poursat 2013).

MFIs in these zones have the same characteristics as other MFIs in Africa and elsewhere in the world. According to Riquet and Poursat (2013), many of these depositary MFIs are too small to have been licensed to operate as DT-MFIs. The authors state though that both the WAEMU and the CEMAC have a specific legal and regulatory framework for the MF sector. It applies to their respective member countries, as national MF associations (apex bodies) are too weak in most of the member states and the regulation for MF is generally also inadequate (Riquet and Poursat 2013). Supervision of MFIs, according to Riquet and Poursat (2013), is a shared responsibility between the *Banque Centrale des Etats de l'Afrique de l'Ouest* (BCEAO) and the ministry of finance of the member states.

Interestingly, MF regulation in the WAEMU and CEMAC reflects the general perception of MF in other parts of Africa. As in most other parts of Africa, the regime is weak (Riquet and Poursat 2013), there is a lack of independent oversight institutions (Ali 2014; Riquet and Poursat 2013) to supervise and monitor the activities of the MFIs. By inference, there is also role overlap because, although licensing and supervision of the MFIs in these regions are the mandate of the ministry of finance in each country, this is subject to the BCEAO's approval (Riquet and Poursat 2013).

As was earlier discussed, regulatory weakness paved the way for illegal operators in the sector (Ali 2015a); coupled with non-compliance and inadequate onsite supervision (Khalily *et al.* 2014: 29; Wampah 2012). MFIs in these regions do not differ from what pertains to other regions in Africa; especially Ghana. Riquet and Poursat (2013) note inadequate infrastructure and other resources, while the BCEAO is overburdened with the responsibility of properly maintaining close oversight (Riquet and Poursat 2013) over the MFIs in the WAEMU and CEMAC regions of Africa. These features exhibited by the MF sector are largely responsible for the lack of implementation of MF regulations, poor financial performance and loss of clients' deposits.

3.4 Types of MF providers

Across the globe, pioneers of MF provision are NGO MFIs (Tripathi 2015: 292). Though the trend has changed, NGO MFIs still exist, in addition to commercial micro lending companies, commercial banks, MF banks, and financial cooperatives, which fall under the MF umbrella (Khalily *et al.* 2014: 25). In some cases, both NGOs and financial cooperatives are discussed separately from other types of MFIs, owing to their distinctive attributes.

3.5 MF methodologies

Literature identifies various ways in which service providers reach their clients. In many discussions, including that of Khalily *et al.* (2014: 18-25), these consist of:

- The lender's personal contact with the borrower;
- Group lending, or individual lending, based on an analysis of the borrower's (or borrower's household) cash flow, as opposed to scoring;
- Low initial loan sizes, with gradually larger amounts available in subsequent loans;
- An understanding that borrowers who repay their loans faithfully will have prompt access to follow-on loans; and
- A "compulsory savings" requirement that must be satisfied by the borrower prior to receiving the loan, to demonstrate the borrower's willingness and ability to make payments and/or to provide a partial "cash collateral" for the loan (Rahman and Luo (2012: 1030; Addae-Korankye

2012: 135; Owusu, Oppong, Agyeiwaa and Abruquah 2015; MoFEP 2013).

3.6 MF in Ghana

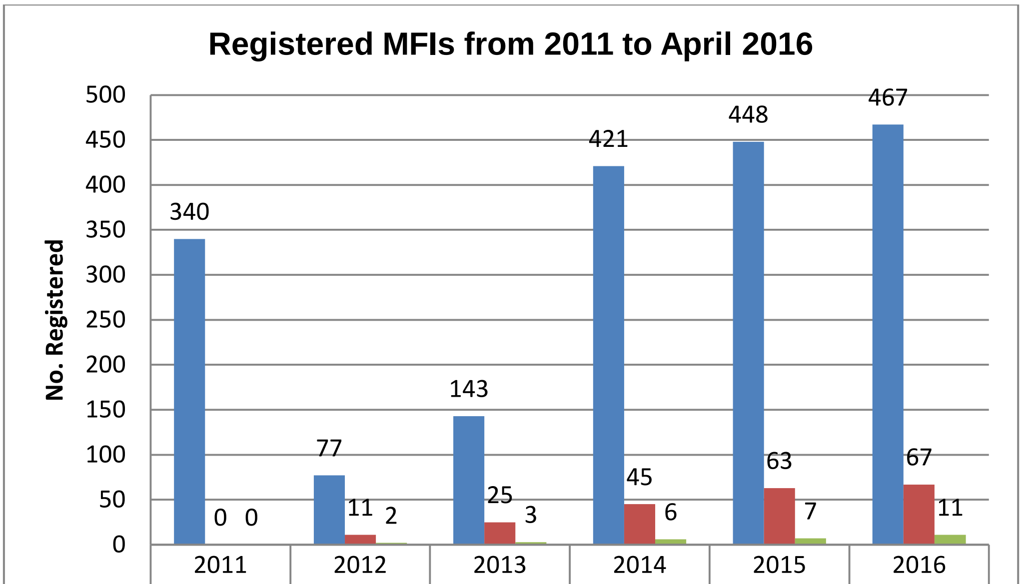
The concept of MF is not new in Ghana. Whilst many authors believe MF originated in Bangladesh in the 1970s, anecdotal evidence suggests that the concept existed tens of years before Muhammed Yunus began his experimental project of providing credit to the poor in Bangladesh (MoFEP 2013; Boateng and Boateng 2014: 11; Addae-Korankye 2012: 139; Aveh *et al.* 2013b: 557; 558). Akinlabi, Kehinde and Jegede (2011) report that savings and credit groups have operated for centuries, including the "Susus" of Ghana and Nigeria, "Chit Funds" in India, "Tandas" in Mexico, and "Arisan" in Indonesia, as well as "Cheetu" in Sri Lanka, "Tontines" in West Africa, and "Pasanaku" in Bolivia, along with numerous savings clubs and credit societies found all over the world.

In Ghana, the system of finance provision, which includes 'piggy saving' and 'Susu', has evolved since 1955, purported to be an idea that originated in Nigeria, with MF methodologies spreading to Ghana in the early 1990s (Aveh *et al.* 2013b: 558; Addae-Korankye 2012: 135; MoFEP 2013; Asiama and Osei 2007 in Boateng and Boateng 2014). The 'Susu' methodology has developed into Rotating Savings and Credit Associations (ROSCAs), with 'Susu' groups presently utilised on a large scale in Ghana, through credit cooperatives that have devolved into the concept of MF (Aveh *et al.* 2013b: 557).

The MF sector itself is not static; rather, it has been evolving through an evolutionary, as well as complex, process (Santos 2012: 335; Cieslik *et al.* 2015). Notably, an increasing range of players in the developing field has been attracted by the successful experiences of different private institutions providing small-scale financial services to the poor (Rahman and Luo 2012: 1020; Khalily *et al.* (2014: 8). These include donors, social investors, as well as for-profit foundations/banks, which have all shown an ever-growing interest in the development and promotion of these MFIs (Bateman 2015a; Ausburg and Fouillet 2010) in Ghana.

According to Ledgerwood (2012), institutional transformation has profound implications for both the ownership and structure of MFI governance (Song *et al.* 2015; Dorsey 2014); while ownership (Mbugua and Makori 2014; Kameshwari 2015: 69; 70) has an effect on governance, strategic direction, institutional culture (Renders *et al.* 2012: 139), and management, as well as policies and procedures.

Since the inception of regulating the sector in 2011, the MF sector has registered steady growth (Figure 3.1).



	2011	2012	2013	2014	2015	2016
MFI	340	77	143	421	448	467
ML	0	11	25	45	63	67
FNGO	0	2	3	6	7	11

Figure 3.1: Growth in the Ghanaian MF sector since 2011

Source: Statistics of registration of MFIs Banking Operating Guidelines (BoG 2011 to 2016)

The graph (Figure 3.1) depicts the growth of the MF sector since the inception of regulations to promote sanity in the sector. According to Microcapital (2013) and BoG (2011), registration, licensing and regulating of MFIs began in earnest in May 2011, with 940 applications. Licenses were issued to 340 applicants, with the rest considered pending as they could not meet the licensing requirements. In 2012 and 2013, a total of 90 and 171 institutions of various categories were registered, respectively. Together, 601 licenses were issued over a period of three years. However, due to annual license renewal criteria and unscrupulous activities, seven MFIs were closed in 2012 and 30 in 2013 (Microcapital 2013).

Nonetheless, it is noteworthy that MFIs in good standing on the register of the BoG is 385, as at September 2, 2016 (myjoyonline 2016). This is an indication that some could not meet the current minimum capital requirement and therefore, cannot have their license renewed, while a number were closed due to financial malfeasance and regulatory non-compliance.

The total number of MFIs on the active register and holding authentic license were 472 in 2014, 518 in 2015 and 385, as of September 2016. The BoG listed 25 MFIs, five moneylenders and one FNGO, as institutions operating with provisional licenses, as of June 2016 (BoG 2016). The dwindling figures emanate from failure to meet current operating requirements, withdrawal of licenses and closure of a good number of MFIs; for instance, 70 licenses of MFIs and one money-lending institution were revoked in January 2016 (BoG 2016).

3.7 Types of MF in Ghana

Currently, four major types of MF exist in Ghana (Ayeh 2012: 48; Boateng and Boateng 2014). These are NGO MF, RCBs, SLCs and government-sponsored MF. The MF sector in Ghana has witnessed growth (Addae-Korankye 2012; Mbugua and Makori 2014: 75) in outreach, as well as in the number of registered and non-registered MFIs (BoG 2014). The sector has served over 5.4 million clients, as of December 2010 (GHAMFIN, 2011). The Bank of Ghana (BoG), by the end of October 2012, had many registered MFIs and granted them provisional licenses (BoG 2012).

The most recent findings indicate that there are 447 MFIs, eight FNGOs and 63 moneylenders (BoG 2014), which totals 518 institutions. The challenge, however, is that the growth of the industry is yet to reflect the scope of MF products available for MF clients (Ayeh 2012: 49).

In Ghana, the financial liberalisation policies of the 1980's, through to the early 1990's, coupled with a relaxed regulatory environment for MF, resulted in tremendous growth and spread of MFIs (Aveh *et al.* 2013a: 18).

The four major types of MF that exist in the financial sub-sector in Ghana, according to UNDP Ghana (2012) and MoFEP (2013), are better explained as follows:

- formal suppliers, such as SLCs, RCBs, as well as some development and commercial banks;
- semi-formal suppliers, such as credit unions, FNGOs, and cooperatives;
- informal suppliers, such as 'Susu' collectors and clubs, ROSCAs and ASCAs, traders, moneylenders and other individuals; and
- public sector programmes that have developed financial and nonfinancial services for their clients, such as the Social Investment Fund (SIF) (MoFEP 2013; Microfinancegateway 2011).

i. *Rural and community banks* (RCBs) are the type of MFIs that operate as quasi-commercial banks under the Banking Act, 783 of 2007 (MoFEP 2013). These banks are to promote rural development and boost what is known as the 'cottage industry'. The RCBs are owned by members of the rural community through equity participation and are licensed with the objectives of mobilising savings and providing loans within their operational areas (UNDP Ghana 2012). Perhaps this may be the reason for them having the lowest capital requirement among the MFIs.

Over the past decade, RCBs have adopted a more commercialised approach and have introduced innovative programmes (Aveh *et al.* 2013a: 18), often in collaboration with NGOs. The RCBs' low capital base hinders their expansion and depth of outreach (Addae-Korankye 2012: 139). They provide loans to clients who have either a current or a savings account, are in a productive business, or who need loans to meet certain expenditure requirements. However, they give priority to clients who reside and conduct business within the community (MoFEP 2013); providing both individual and group loans, with repayments mostly on a monthly or fortnightly basis. Loan sizes are tied to repayment performance and the collateral provided, while interest rates are pegged to market rates but are sometimes lower, depending on the source of funding.

ii. *Savings and loans companies* (SLCs) are the type of MFIs that are licensed and regulated by the BoG (BoG 2013). SLCs are a product of the non-banking law, which came into existence in 1993. They are, however, restricted to a limited range of services by the very Act that established them (NBFI Act of 1993). SLCs' main functions, according to the Act, include deposit mobilisation from the public and extension of credit to clients in the form of loans (MoFEP 2013). Most are located in the urban centres of the country, where they provide services to the urban poor, who are mainly micro and small entrepreneurs, as well as female traders (Owusu *et al.* 2015). The growth of SLCs in Ghana is slow, due to the inability of new entrants to meet the requirements set by the BoG.

SLCs serve clients who normally hold either a current or a savings account and are in a productive business or a start-up, by providing loans to their clients with a monthly or fortnight pay-up period, depending on the nature of the business (Microfinancegateway 2011). As with RCBs, the loan size from SLCs also depends on repayment performance and collateral type and their interest rates are at market level. Loan screening techniques include the provision of business plans, project appraisals and character references (MoFEP 2013; BoG 2014).

iii. *NGO-based MFIs* are incorporated as companies limited by guarantee (not for profit), under the Company Code 1973 (Act 179). Their poverty focus enables most to provide multiple services to their clients, especially micro-credit and skills training. Unlike the RCBs and SLCs, they are not licensed to take deposits from the general public and therefore, rely on external funding (donor agencies) (MoFEP 2013; UNDP Ghana 2012). Operations are normally financed by donor agencies, as well as managed funds from the Government and development partners, equity capital and loans from commercial banks (UNDP Ghana 2012). NGO-based MFIs' poverty focus leads them to achieve relatively deep penetration to poor clients, through the adoption of innovative MF methodologies. However, these FNGOs, as with those discussed above, serve clients with a current or a savings account, who are in a productive business, for start-up, as well as to meet expenditure needs (MoFEP 2013).

iv. The *government-sponsored MFI* currently in operation is the Microfinance and Small Loan Centre (MASLOC). It is the apex body responsible for implementing the Government of Ghana's MF programme, targeted at reducing poverty and creating jobs and wealth. Most of MASLOC's target clients are women, who are often rationed out of credit from the commercial banks, as well as youths, through the Ghana Youth Employment and Entrepreneurial Development Agency (GYEEDA) (UNDP Ghana 2012).

    Established in 2006, MASLOC performs the function of holding funds of the Government of Ghana and development partners in trust, for the purpose of administering micro- and small-scale credit programmes, as well as providing, managing and regulating approved funds for MF and small-scale credit loan schemes and programmes (Addae-Korankye 2012: 137; MoFEP 2013). Due to the Government's policy of creating employment avenues for the unemployed, loans are normally given to individuals for start-up, mostly under the GYEEDA programme. With women and youths often the targets, access to credit and rationing therefore favours women and youths in government-sponsored MF schemes (UNDP Ghana 2012; MoFEP 2013). Nonetheless, MASLOC, politically motivated as it is, faces challenges of loan repayment, as most of the loan beneficiaries default in loan repayments (Addae-Korankye 2012: 138).

3.8 Phases of MF evolution in Ghana

The market structure of MFIs across Africa has been changing over the past few years, as more non-profit MFIs are now changing to a profit-based structure, Ghana included (Ledgerwood 2012). Though other literature indicates the evolvement of MF through three stages of micro, meso and macro levels, MF has gone through four distinct phases in Ghana (Boateng 2015; Aveh *et al.* 2013b: 563; Amoah 2008; MoFEP 2012).

Aveh *et al.* (2013b: 563) and MoFEP (2012) posit that the MF financial sub-sector in Ghana evolved through four stages because of various financial sector policies and programmes, undertaken by different governments, since independence. This evolvement, according to MoFEP (2012), was characterised by various financial sector policies and programmes, such as the provision of subsidised credits, establishment of RCBs in 1976, the liberalisation of the financial sector and the promulgation of PNDC Law 328 of 1991. This allowed the establishment of different types of non-bank financial institutions, including SLCs, finance houses, and credit unions, and so on (Boateng and Boateng 2014; Aveh *et al.* 2013a: 21).

The MF developmental phases in Ghana, as in other countries in SSA and around the world, according to the Ministry of Finance and Economic Planning, UNDP-Ghana and researchers, such as Boateng and Boateng (2014: 11) and Aveh *et al.* (2013) are detailed as:

Table 3:3: Phases of MF evolution in Ghana

Evolution Phase	Characteristics of MF intervention
One	1. Started in the 1950s with government premiere intervention; 2. Subsidised credit provided to farmers; 3. Strategy to reduce rural poverty; and 4. Financial assistance to procure agricultural inputs.
Two	1. Initiated in the 1960s, through to the 1970s; 2. NGO involvement becomes evident; 3. Microcredit was extended to farmers and small business operators; and 4. Financial sustainability of operators was not the paramount objective.
Three	1. Established in the late 1980s, through to the early 1990s; 2. Formalisation of MFIs started; and 3. Financial liberalisation and the NBFIs Act of 1993 promulgated.
Four	1. From mid 1990s; 2. Commercialisation of MF operations; and 3. MFIs mainstreamed into the broad financial sector.

Source: MoFEP (2013) and UNDP Ghana 2012

According to Owusu *et al.* (2015), MFIs in Ghana belong to the informal financial markets (Ogbulu *et al.* 2015: 80), which are fragmented and faced with information asymmetries (Foss and Stea 2014; Song *et al.* 2015; Puyvelde *et al.* 2012). Researchers opine that these institutions often grant small, short-term loans to risky borrowers (Boateng 2015: 53; Kanake 2014), who are already restricted in obtaining credit from the formal financial sector. To indicate government input, MoFEP (2013) state that the government of Ghana has since recognised MF as an integral component of its development agenda and has thus, linked microcredit to the overall policy framework of the Ghana Poverty Reduction Strategy (GPRS).

A number of subsidised credit schemes, according to the UNDP Ghana (2012), have consequently been launched by the government to operate along the lines of various MF arrangements. “Enhancing Opportunities for

Women in Development (ENOWID)”, which is a direct poverty alleviation programme, the “District Assembly Common Funds” and the MASLOC (UNDP Ghana 2012; Boateng 2015: 53; 55; Aveh et al. 2013a) are candid examples of such intervention programmes. However, other than with a few exceptions, Boateng postulates that these schemes have had limited successes (Boateng 2015) because they have targeted few people with low recovery rates and, in some instances, the loans have been tagged as “politically motivated” loans (Boateng 2015).

Despite these challenges, Ghana’s Poverty Reduction Strategy 1 and 2 (GPRS I and II) introduced in 2000 and 2006-2009, respectively, and the Ghana Medium-Term National Development Policy Framework, known as the ‘Ghana Shared Growth and Development Agenda (GSGDA) of 2010-2013,’ placed MF high on the development list (ISSER 2010). These programmes are considered a possible means of achieving sustainable private sector development, wealth creation and employment generation for national growth.

This research classified these stages into the neo-*financial liberalisation era* and the *post-financial liberalisation era*; the former era being the period before 1993 and the latter referring to the period dating after 1993, when financial liberalisation in Ghana took formal root and became operational.

3.8.1 The neo-financial liberalisation era of MF in Ghana

This novel era, which dated from the 1950s to the early 1980s (though earlier than on record; refer the history of MF), according to MoFEP (2013) and UNDP Ghana (2012). The following attributes were displayed:

- provision of subsidised credits in the 1950s, especially to the agriculture sector;
- establishment of the Agricultural Development Bank in 1965, specifically to address the financial needs of the fisheries and agricultural sector;

- establishment and proliferation of numerous RCBs, and
- the introduction of regulations and banking directives, such as directives for commercial banks to set aside 20 percent of their total portfolio, to promote lending to agriculture and small scale industries in the 1970s and early 1980s.

(GHAMP 2008)

3.8.2 The post-financial liberalisation era of MF in Ghana

This era, in the history of the Ghana MF sector, has the following characteristics:

- A shift from a restrictive financial sector regime to a liberalised regime in 1986; when the GPRS and the Ghana Structure Adjustment Programme (GSAP) were being implemented;
- Promulgation of PNDC Law 328 in 1991, to allow the establishment of different categories of non-bank financial institutions, including SLCs, and credit unions, as well as the subsequent launch of the NBFI Act in 1993;
- Emergence of formal suppliers, such as SLCs, rural and community banks, as well as some development and commercial banks;
- Formation of semi-formal suppliers, such as credit unions, FNGOs, and cooperatives; and
- Proliferation of informal suppliers, such as Susu collectors and clubs, rotating and accumulating savings and credit associations (ROSCAs and ASCAs), traders, moneylenders and other individuals (MoFEP 2013; Addae-Korankye 2012: 135; Boateng and Boateng 2014: 11-14; Aveh et al. 2013a).

3.9 Key Stakeholders of Microfinance in Ghana

It is thus evident that the structure and key MF stakeholders in Ghana (Table 3.4), according to the MoFEP (2013); Owusu *et al.* (2015) and General

Background on Global MF Trends (UNDP Ghana 2012), consist of the following institutions:

Table 3.4: MF stakeholders in Ghana

	Stakeholders		Participant institutions
1	MFIs	i.	Rural and Community Banks;
		ii.	Savings and Loans Companies;
		iii.	Financial NGOs (FNGOs);
		iv.	Primary Societies of CUA;
		v.	*Susu* Collectors Association of GCSCA;
		vi.	Development and commercial banks with MF programmes and linkages; and
		vii.	Micro-insurance and micro-leasing services.
2	Microfinance Apex Bodies	i.	Association of Rural Banks (ARB);
		ii.	ARB Apex Bank;
		iii.	Association of Financial NGOs (ASSFIN);
		iv.	Ghana Cooperative Credit Unions Association (CUA); and
		v.	Ghana Cooperative *Susu* Collectors Association (GCSCA)
3	Supporting Institutions	i.	Microfinance and Small Loans Centre (MASLOC);
		ii.	The Ghana Microfinance Institutions Network (GHAMFIN);
		iii.	Development partners and international NGOs;
		iv.	Universities and training and research institutions.
4	Government Institutions	i.	Ministry of Finance and Economic Planning;
		ii.	Ministries, Departments, Agencies (MDAs) and Metropolitan, Municipal and District Assemblies (MMDAs); and
		iii.	BoG.
5	End Users	i.	Economically active poor who are clients of MF products and services
6	Technical Service Providers	i.	Business Development Service Providers to MFIs and their clients.

Note: Adapted from General Background on Global Microfinance Trends (UNDP Ghana 2012)

Addae-Korankye (2012: 136); Khalily *et al.* (2014: 6); Rahman and Luo (2012: 1021) and a MicroCapital Article (2013) observe that in the 2000's, the MFI sector witnessed the strongest evolution and growth experienced, since the concept of MF became popular. The sector received praises as a powerful tool for poverty reduction (Hassan and Said 2014) and economic development in the informal sector, along with financial inclusion of the rural population (Kipesha and Zhang 2013). However, the focus of MFIs has now shifted from service to the poor, to institutions with a financial sustainability objective (Warue 2012; Moss *et al.* 2014; Mokhtar *et al.* 2014: 53) and hence, its commercialisation is seen as the key to financial sustainability (Kipesha and Zhang 2013).

3.10 Microfinance status in Ghana today

Every region in Ghana appears to have some coverage of MF activities in the rural and urban areas (Addae-Korankye 2012: 135). Currently, there are three broad types of MFIs operating in Ghana. These include: formal suppliers of MF (RCBs, SLCs, MF companies and commercial banks); semi-formal suppliers of MF (credit unions, FNGOs, and cooperatives); informal suppliers of MF "Susu" collectors and clubs, rotating and accumulating savings and credit associations (ROSCAs and ASCAs), traders, moneylenders and other individuals) (Boateng and Boateng 2014). Ghana now has 447 fully licensed MFIs, 92 provisional licensed MF operators, 67 Money Lenders and seven FNGOs (Bank of Ghana, 2014).

The BoG has overall supervisory and regulatory authority (Nilsen 2015; Nilsen *et al.* 2013: 8) in all matters relating to banking and non-banking financial business in Ghana, with the purpose of achieving a sound, efficient banking system, in the interest of depositors and other customers of these institutions, and the economy as a whole. According to the BoG (2015), as at June 2015, there are 447 MFIs, six (6) FNGOs and 67 money-lending institutions registered and active to operate in Ghana; recording a growth of 10.38 percent (BoG 2015).

Constantinou and Ashta (2011: 189) reveal that high growth is motivated by an increased demand for liquidity, profitability, sustainability or to beat competitors. However, Ghana’s situation is a sheer motivation to maximise profit (Addae-Korankye 2012: 138; Boateng 2015: 54 and Kunateh 2011), whatever the situation. Hence, MFIs opened many branches and made efforts to reach as many poor as they could, lend to less credit-worthy borrowers, with less evaluation of credit worthiness in the process (Kunateh 2011; Addae-Korankye 2012: 138; Vishwakarma 2015a: 83, 2015b).

Loan officers mainly focus on lending as much as they can, to earn commissions and percentages (Ogbulu *et al.* 2015: 80). In such a case, rapid growth can always be considered good by management and employees of the MFI (Kunateh 2011), but it can also create a problem, weakening the governance of the MFI by hiding fraud, malpractices, an aspiration paradox and over-indebtedness (Ogbulu *et al.* 2015: 80), as well as saturation of the market (Vishwakarma 2015b). Sinclair (2012) also argues that MF today is about making large sums of money for the providers of MF, and not about resolving the poverty situation of the poor recipients of microcredit (Bateman 2015a; 2015b).

The new hope, brought by the evolution of MFIs to the poor, as a continuous source of finance, therefore, did not last and according to Kipesha and Zhang (2013), most of these institutions lack the financial muscle for continuous credit. In addition, there is an alarming collapse of many MFIs in Ghana, due to unscrupulous operations. Poor management, lack of standards, improper record-keeping and financial malfeasance are further indications of collapse of the sector (Addae-Korankye 2012: 138; Vishwakarma 2015a; 2015b).

In Ghana, 30 MFIs were closed down in 2013 (MicroCapital Article 2013), putting sustainability of the MFI industry under trial (Balogun and Abraham 2012). This phenomenon compelled an alleged United Nations' comment that the world will probably fail to meet several millennium targets by 2015, as stated in Busch *et al.* (2015). Research conducted by Kunateh (2011) further indicates that the MF sector is on the verge of collapse.

3.11 Characteristics of MF in Ghana

Research reports that MF intermediation has three dimensions: social, financial, and administrative intermediation (Aliul-Rahman *et al.* 2014). Social intermediation is the process of reaching targeted borrowers and providing them with needed financial services; financial intermediation is the ability of MFIs to maintain financial viability (Aliul-Rahman *et al.* 2014), while administrative intermediation refers to the proper management of the MFIs (Da and Bernstein 2014; Aveh et al. 2013b). Failure in financial intermediation often results in a portfolio with higher than average risk (Aliul-Rahman *et al.* 2014); that leads to low financial performance, increased loan losses, and ultimately, in a high default rate (Boateng 2015). This is a predominant issue in MF in developing countries.

Inadequate administrative practices include, a lack of well-established policies and procedures (Nilsen *et al.* 2013), a lack of data collection and record keeping (Aveh et al. 2013b: 563), as well as managing of MFPs, such as social programmes that tend to treat funds as free money (Boateng and Boateng 2014) and distribute it without due diligence (Da and Bernstein 2014). These administrative malpractices have become common characteristics of many MF providers in Ghana and South Africa, especially in the case of MASLOC and other GPRS loans, which have political connotations and treated loans as gifts from the government (Boateng and Boateng 2014).

As the social intervention objective of MF has changed to profitability and sustainability (Santos 2012: 337; Rahim and Mohtar 2015: 10; Moss *et al.* 2014; Mokhtar *et al.* 2014: 53), there is the need to see MF as a strategy to job creation, instead of alleviation of poverty (Bredberg and Ek 2011; Lieberman, Mudd and Goodeve 2012; Edgcomb 2012). This situation demands unique regulation for MFIs, in order to ensure their continuity and forestall systemic risk. Bredberg and Ek (2011) posit that job creation and business performance are more important than poverty alleviation.

The job creation (Moss *et al.* 2014; Mokhtar *et al.* 2014: 56) notion will speed up the transformation of the MFI structure, which lacks regulation, yet is being practised across Africa and for this reason, Ghana. Lieberman *et al.* (2011) avers that transforming MFIs to commercial institutions should be an on-going trend. Should the poverty alleviation objective be removed, MFIs can be redefined as intermediaries to offer small loans and other financial services to low-income people, to help them increase their income through entrepreneurship and self-employment (Ali 2015b).

Aveh et al. (2013b: 574) identified ownership, increased funding, executives' motivation, clientele type and information gathering as main institutional characteristics of MFIs. Renders *et al.* (2012: 131) and Pritchett *et al.* (2012) allege that ownership has an effect on governance, strategic direction, institutional culture, and management, as well as policies and procedures and, according to Aveh *et al.* (2013), the survival of MFIs therefore hinges on effective management of their institutional characteristics.

Very few studies have tested the sustainability of such institutions in sub-Saharan Africa. In Ghana, studies on institutional characteristics of MFIs have not been empirically tested to establish the extent to which it impacts sustainability (Kinde 2012; Kimando *et al.* 2012: 40; Richman and Fred 2010: 14). Secondly, most studies have tended to concentrate on the operations and coverage of MFIs and, in certain instances, on informal moneylenders, with little focus on their sustainability and success (Owusu *et al.* 2015).

3.11.1 Ownership of MF in Ghana

Ownership is widely reported to be a determinant of micro financial institution profitability (Mbugua and Makori 2014: 77). Family and friends (Arunachalam 2011) dominate the ownership structure of Indian MFIs. Family and friends are board members, thus the board structure is characterised by inadequate checks and balances of executives, lack of transparency in reporting, lack of independent board nomination, insufficient transparency about ownership and conflict of interest at various levels of management (Arunachalam 2011).

This feature is the reason why executive remuneration payments are very irrational and unusually high in most MFIs. It is characterised by unplanned bonuses, granting of shares and non-transparent pricing of shares. It is noted also that related party transactions were not transparent and MFIs provide huge loans to founders and boards of directors, with which to buy their own company shares (Arunachalam 2011). In this regard, Franke, Kläntschi, Meibauer and Talmo (2011) and Marr and Tubaro (2011: 996-1003) note that Boards were not truly independent, even institutional nominee directors were inactive, and lack diligence in controlling the activities of the MFIs (Arunachalam 2011; Franke *et al.* 2011, and Marr and Tubaro 2011: 998).

Aveh *et al.* (2013b) in their exploratory study identified five types of ownership: foreign, local, foreign and local partnership (BoG 2011), government, and single ownership. While most MFIs are owner-managed, others have professional (non-owner) managers. What remains unknown is whether the type of ownership in a MFI influences operation, compliance (Kameshwari 2015: 71) and success (Aveh et al. 2013b). However, it was noted that by the specific nature of MFIs, focusing on financial and social development, determine the varied ownership and investor profile (Aveh *et al*. 2013b). This assertion conforms to the much-diversified nature of MF, as well as its traditional and cultural attributes.

Ghanaian MF structure is dominated by owner-employee ownership, mostly providing microcredit (Aveh *et al.* 2013b: 558). MF owners' investment objectives, return expectations, time horizons and exit strategies differ significantly from one another, as do the implications for their role in governance (Aveh *et al*. 2013b: 558).

Ownership regulation is stipulated in the law governing the respective legal forms of the institution. Possible legal forms (BoG 2013) considered for registration are private or public companies, NGOs, cooperatives, banks, mutual banks, or trusts. According to the MFIs Proclamation, all kinds of MFIs are covered under the law. In practice, however, most MFIs seem to offer deposit facilities as well (BoG 2013). The guidelines identify many types of ownership: as a company with shareholders, donors who provide grant capital, and investors with huge capital, as well as cooperatives and owner-employee ventures (BoG 2011).

3.11.2 MF ownership concentration

Another standard regulatory provision, for all types of financial institutions, is the stipulation of a maximum percentage of capital that can be held by a single owner (BoG 2013 and IFC 2014). The rationale for such a requirement is to prevent a concentration of ownership (CGAP 2007), which could enable a single owner to take major policy decisions in his/her own interest, neglecting the public interest (Wo'jcik 2012; CGAP 2011), without having to consult anyone else.

For MF banks in Pakistan, the statutory regulations do not allow an Executive Director (except for the Chief Executive) and his/her affiliated persons or connected firms, to jointly hold more than five percent of paid-up capital, according to Wo'jcik (2012: 348). There is no such limit mentioned for the shareholding of the Chief Executive. According to the IFC (2014), this regulation is designed to separate ownership and management of a MF bank. In Ethiopia, ownership in MFIs (as for any other financial institution) is equally restricted to 20 per cent of voting shares (Nzaro *et al.* 2013: 429-438; CGAP 2007; Ojo 2013: 5).

Furthermore, the presence of a minimum number of owners facilitates a balanced representation of interests (Wo'jcik 2012: 348), which is particularly important for MFIs, as they face potentially conflicting objectives of poverty alleviation and profit maximisation (IFC 2014).

There are two exceptions to this rule, both requiring prior approval from the central bank (BoG 2011). Wholly owned subsidiaries of banks licensed by the central bank, and reputable financial institutions or, in exceptional cases, reputable public companies (defined as financially strong companies, whose ownership is widely distributed and who are of good public standing) may hold up to 100 per cent of the shares (Microfinancegateway 2011 and BoG 2011).

The rationale behind this is to allow commercial banks to set up a MF subsidiary and to facilitate shareholding by international MF networks, which have been promoting the original MF NGO (CGAP 2007). Many other countries have equally unique requirements but, most often, in congruence with the IFC and Basel provisions.

Another point of divergence between the RCBs and MFIs, is in those that the regulatory guidelines allow ownership (BoG 2011). Shareholding of MFIs, such as Susu companies, deposit taking financial NGOs and money lending companies, shall be restricted to only Ghanaians. Shareholding in non-deposit taking MFIs may be exclusively Ghanaian, exclusively foreign or jointly Ghanaian and foreign (BoG Banking Guidelines 2011).

3.11.3 Funding MF activities

MFIs capital can be explained in two ways. Narrowly, capital is the amount contributed by the owners of the institution (paid-up share capital) that gives them the right to enjoy all the future earnings of the MFI (Mbugua and Makori 2014: 77). This is consistent with the owner-employee set-up. More comprehensively, it can be the amount of owners' funds available to support the institution's business (Mbugua and Makori 2014: 78).

Capital is linked to ownership structure and, as such, ownership is widely reported to be a determinant of financial institution's profitability (Mbugua and Makori 2014: 77). MFIs with diversified ownership enjoy funding in the form of equity, debt finance, grant funding and customer deposits, while NGO owned entities' funding is largely grant funding, with minimal debt finance and equity or none at all (Mbugua and Makori 2014: 79). From the purview of this assertion, it is worthy to conclude that the capital structure of MFIs is also determined by ownership structure (2014).

Start-up capital for MFIs is mostly obtained from sources, such as foreign capital, local capital borrowings, and family capital, as well as members' savings and government (Microfinancegateway 2011 and BoG 2011; Mbugua and Makori 2014: 79; Aveh *et al.* 2013b: 560). To a large extent, MFIs with a large capital base are able to provide loans with long-term maturities (Aveh *et al.* 2013b: 560, 563). The lack of access to long-term credit for capital investments by MFIs hampered their outreach and the depth thereof (Aveh *et al.* 2013b: 560).

This suggests that an MFI that focuses more on motivation to grow chooses the type of clientele that will ensure consistent and regular repayment of loans and designs effective methods to derive good quality information on their clients; and is likely to survive longer into the future (Aveh *et al.* 2013b: 568).

The tier system by BoG (2011; 2013) approves a license to a provider that is hitherto a non-deposit taking (NDT) MFI, to convert to deposit taking, provided the preconditions are met. Deposit taking, according to Mbugua and Makori (2014: 79), is one model used by the MFIs to fund their revolving loans and also to serve as security against loans advanced to clients.

In Ghana, provisioning for deposit-taking NBFIs is done on a 'basket basis' and not on an individual loan basis (Boateng and Boateng 2014). This means that provisions are made for the total outstanding loan amounts at each risk grade (sub-standard, doubtful and loss). Such a procedure simplifies provisioning (Boateng and Boateng 2014: 11-14), which is the same for *rural banks* as for any other bank, regulated under the Banking Law of 1989 and therefore, too lenient, as it does not take more frequent instalment payments into account (Boateng and Boateng 2014).

According to Ledgerwood (2012), MFIs need enough funding to enhance their operations. These funds come from commercial borrowings, donors, social funds or international lending; and now equity. The author further states that, without access to capital markets, NGO MFIs must often rely on donor funding to sustain their growth (Ledgerwood 2012). This reliance on donor funding for capital accumulation places the MFI at the mercy of onerous, bureaucratic hurdles, which generally has MFIs perceive the lack of funds (Aveh *et al.* 2013: 559) as their greatest constraint to growth. Ledgerwood (2012), however, notes that the commercialisation of MF has shifted the poles, bringing in more individualised equity financing (Economist Intelligence Unit 2012; Ledgerwood 2012); more than ever witnessed in the history of MF.

3.11.4 Clientele of MFIs

The mission of the founders of MF shared a vision of bringing financial assistance to the poor, who could not meet the standards of formal banking (Aveh *et al.* 2013: 560). This has now proved nothing more than a mirage, as survival is linked closely with how much interest income is netted. This could best be described by the stages of evolvement in the 1970s, 1980s, 2000s, and so on.

Presently, the major source of income for operators is government workers or regular salary earners, who provide guarantees for repayment, as opposed to the core poor, identified by the MF mission (Aveh *et al.* 2013: 560). SMEs, pinned to economic downturns, receive inadequate attention (Baoteng and Agyei 2013: 153, 154); perhaps due to unsustainable repayment trends. Essentially, the target group is clearly outlined, by the very definition of MF, in the context of each country. In the Ghanaian context, Addae-Korankye (2012: 136) defines MF as the provision of credit, and other financial services, from savings, and insurance to micro, small and medium scale enterprises.

MF encompasses the provision of financial services and the management of small amounts of money, through a range of products and a system of intermediary functions targeted at low-income clients (Baoteng and Agyei 2013: 154; Boateng 2015: 53). In the view of Obisesan *et al.* (2015), the provision of small, non-collateralised loans differentiates MFIs from conventional financial service providers. Based on these definitions, the 1970s mostly saw agricultural workers as consumers of MF services, while the 1980s saw what is described in Ghana as 'cottage industries' surviving on MF, until the financial liberalisation and commercialisation of MF operations in the early part of 1990.

3.11.5 Asset Quality of MFIs

For MFIs, the most important asset is their loan portfolio (Boateng and Boateng 2014; Aveh *et al.* 2013b: 572). Thus, the classification of loans and the specification of provisioning requirements serve as important regulatory instruments (BoG 2011) and the BoG banking guideline annexure specifies loan limits for individual clients, as well as executives and staff of MFIs (BoG 2011). In general, provisioning requirements were more conservative than for traditional banks, as microloans have more frequent payment instalments than traditional loans.

3.11.6 Risk Concentration in MFIs

Diversification of assets can reduce the overall risk of a financial institution (Boateng 2015: 58; Vishwakarma 2015a: 81; Kanake 2014), with the riskiest asset of an MFI usually being the loan portfolio. Restricting the loan exposure to single borrowers is a typical regulatory requirement for both traditional financial institutions and MFIs. The BoG (2011) prescribes a ceiling of five percent of net worth for unsecured loans, 20 percent of net worth for secured loans and one percent of net worth per member of group loans.

Whereas a number of traditional banks in developing countries suffer from a high dependence on a small number of big borrowers, this is usually not the case for MFIs, with a portfolio of many small loans. This does not mean risk concentration is not a problem for MFIs. The high correlation of risks (Boateng 2015: 58; Ojo 2013: 6), due to the fact that clients work in the same geographical area, belong to homogenous groups and/or work in the same sector (for example, in trade), is more of a problem than large exposure to single borrowers.

3.12 Governance practice in MFIs

CG has become a global phenomenon that continues to attract much interest in business and academia, especially in light of the recent global financial crises, which arose partly as a result of non-optimal CG practices among several organisations across the globe. The catastrophic losses of financial firms, which almost led to a collapse of the financial system, followed by the deep global recession, emphasise the importance of CG (Haileselasie *et al.* 2014: 21). Ruggie (2014) defines governance as the “system of authoritative norms, rules, institutions and practices by means of which any collectivity, from the local to the global, manages its common activities”. CG might well be explained as a broad range of policies and practices that guide the owners, executive managers, and boards of directors to manage and fulfill their responsibilities to all stakeholders (King Commission Report 2002).

According to Bill Witherell, Director of Financial and Enterprise Affairs, OECD, “good corporate governance underpins market confidence, integrity and efficiency and hence, promotes economic growth and financial stability” of firms.

CG is the system by which companies are directed and controlled (King Commission Report 1994).

> *“It is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and*

> *equally to require accountability for the stewardship of those resources. The aim of corporate governance is to align as nearly as possible, the interest of individuals, corporations and society"*
> (Cadbury Commission Report of 1992 in Cadbury and House 2015).

Haileselasie *et al.* (2014: 21) assert that CG in MF is a mechanism, where the board of directors establishes an appropriate business environment, to follow the day-to-day activities of the management, and to achieve the mission and vision of the MFI. Good governance seeks to maintain a sound control and risk management framework to make strategic decisions, by internalising the framework (Haileselasie *et al.* 2014: 21) and the risk model (Mbugua and Makori 2014: 81), designed to accommodate change.

The phenomenon of CG became popular and achieved the consideration of financial economists, after the 1976 publication of Jensen and Mackling, which explained that CG has its basis in the agency theory. This theory states that there is a conflict between the interest of managers and shareholders (Song *et al.* 2015; Puyvelde *et al.* 2012).

CG therefore provides a solution to agency problems and is defined as the mechanism that forces managers to act in the best interest of shareholders (Haileselasie *et al.* 2014: 21; Dzigba 2015). Foss and Stea (2014) contend that although the agency theory helped the redesign of management reward systems and organisational IP, it nonetheless failed to address the principal's ability to identify the agent's real intentions, knowledge and beliefs.

Governance is thus seen as an interface stakeholder in the business-stakeholder relationship that is supposed to serve a converging role between conflicting parties (Daly 2015; Desender *et al.* 2012).

According to the World Bank, the term, 'corporate governance' refers to a mix of law, regulation and suitable, voluntary, private sector practices that facilitate the attraction of financial and human capital by the corporation, along with efficient performance, thereby perpetuating itself (World Bank 1999). This is achieved by generating long-term economic value for shareholders, while respecting the interests of stakeholders and society as a whole (Chancharat *et al.* 2012: 148; Daly 2015; Desender *et al.* 2012).

The principal characteristics of effective CG, according to the World Bank, include: transparency (that is, disclosure of relevant financial and operational information and internal processes of management oversight and control) (World Bank 1999). The institution also adds: protection and enforceability of the rights and prerogatives of all shareholders; the director’s capability of independently approving the corporation's strategy and major business plans and decisions; ability of independently hiring management, monitoring management's performance and integrity and replacing management when necessary (World Bank 1999). This description, to a very large extent, gives a bird’s eye view of what a good CG system should look like.

As stated earlier, research outcomes on governance point to the fact that good and sound governance is contingent to broader institutional arrangements (Henrekson and Jakobsson 2012; Renders and Gaeremynck 2012), ownership structure (Desender *et al.* 2012; Dorsey 2014: 62; Lahouel, Peretti and Autissier 2014: 369), type of industry (Chancharat, Krishnamurti and Tian 2012), financial condition and scale and scope of operation (Daly 2015) and the dynamism of the operating environment (Rivera-Santos *et al.* 2012).

Applying these assertions to MFIs, it is evident that the board and its composition will determine the level of compliance of the MFIs with the available regulations and operating guidelines. Hence, a weak and unfit board implies poor control, management and implementation of sound financial regulatory policies.

Good CG, as it is now perceived, was greatly influenced by the 1992 report of the Cadbury committee on the financial aspects of CG. The report's proposals and its code of ‘best practice’, and recently ‘best fit’, emphasise the importance of independent, non-executive director advocacy for the audit committee; the separation of the chief executive position from the chairman of the board, and so on (Kameshwari 2015: 72).

The board is the most important element of the leadership and control mechanism because the board has the final power and responsibility over the decisions of the firm. Haileselasie *et al.* (2014) assert that the board acts on behalf of shareholders, providing liaison services between managers and owners, hence reducing agency conflicts between them (Daly 2015; Desender *et al.* 2012). Agency theory advocates separation of management decisions from corporate control, by separating the roles of CEO and chairman of the board, as it is the board that guides managers in strategic decisions and monitor and supervise them in taking action on those decisions (Desender *et al.* 2012).

Agency theory states that CEO duality brings more CEO entrenchment in the organisation (Kameshwari 2015: 72), which hinders the board’s ability to effectively monitor management decisions, while organisational theory gives a rationale in favour of CEO duality and states that it brings unity of command in an organisation and is beneficial (Vishwakarma 2015a).

A study conducted by Dzigba (2015), concludes that CG is focused on the processes, systems, practices, and procedures, as well as rules and regulations that govern institutions. In addition, CG is concerned with the manner in which these rules and regulations are applied and followed, as well as the relationships that these rules and regulations determine or create, and the nature and the effects of those relationships.

Based on this assertion, Vishwakarma (2015a: 80-89) concludes that CG relates to an institution's internal operating and control procedures and plays a key role in providing strategic direction. This assists institutions in creating transparency (World Bank 1999) and trust for investors and in attracting capital. Good CG contributes to efficient management and to considering stakeholder interests (Haileselasie *et al.* 2014: 21; Dzigba 2015), boosting the MFIs reputation and integrity, as well as fostering customer trust (Haileselasie *et al.* 2014: 21).

The Cadbury Report of 1992 in Cadbury and House (2015) highlights financial aspects of CG. The Walker review of 2009, following the financial crisis of 2007, concluded that lack of CG and banking failure from individual recklessness, rather than system problems and promotion of best CG practices, area better remedy than regulations (the Combined Code of 2010 in Dedman 2015 and UK Stewardship Code of 2010 in Council 2012; 2010).

In the last few years, the MF industry has significantly changed its shape, due to several reasons, in which CG also features, playing a pivotal role to enhance the performance of MFIs (Hartarska and Mersland 2012: 220; Vishwakarma 2015a: 85). Effective governance of these institutions is necessary, owing to its complex business (Santos 2012: 335; Hallsworth and Rutter 2011: 18), as it provides thrift, credit and other financial services, as well as products of very small amounts, mainly to the poor in rural, semi-urban or urban areas. This enables them to raise their income levels and improve their living standard, which lead to socio and economic development of the country (Vishwakarma 2015b; Boehe and Cruz 2013: 128; Galema, Lensink and Mersland 2012).

CG has, in recent years, attracted much attention from different stakeholders of MF because many of the failures of MFIs have, in the past, been linked to the presence of a weak governance system (Galema *et al.* 2012) in those institutions. The hue and cry about CG practices, concerning the MFI agenda for the past decade, was due to a major shift from subsidies and donations to capital, as a source of funding, and increased agency problems, as well as a lack of transparency in MF, more so than other sectors of the economy (Labie and Mersland 2011).

However, in MF, these practices could be slightly different from other sectors because of MFIs dual mission, ownership type, and board of directors' responsibility and risk valuation (Kameshwari 2015), along with other, peculiar characteristics (Labie and Mersland 2011). Thus, CG in MF can be divided into two dimensions; leadership structure of MFIs and ownership structure of MFIs. Leadership structure involves issues related to the board of directors and the top management team (CSFI 2014; Foss and Stea 2014), while ownership structure deals with different institutional setups in MF (Ahmad and Sana 2015; Puyvelde *et al.* 2012).

The Centre for the Study of Financial Innovation (CSFI) (2014) considers quality of management and governance as one of the most pressing risks facing this industry, while Labie and Mersland (2011) highlight the importance of good governance in the overall performance of MFIs. Aboagye and Otieku (2010: 311), Hartarska and Mersland (2012) and Galema *et al.* (2012: 718-742) present empirical evidence of how CG leads to improved financial performance in MF; due to governance's role in implementation of regulations and promoting sound institutional practices and compliance.

Deville and Lamarque (2015) indicate that organisational governance is characterised by the scope and nature of the oversight a central body exercises over decentralised bodies, and by the degree to which decision-making is centralised/decentralised within each structure. The authors further indicate that governance of conventional financial institutions includes board functioning (Deville and Lamarque 2015; CSFI 2014), ownership structure, and the types of decisions made by boards (Foss and Stea 2014: 111; Ahmad and Sana 2015; Puyvelde *et al.* 2012).

In MF literature, Tchuigoua (2010: 439), Aboagye and Otieku (2010: 308), Hartarska and Mersland (2012) and Galema *et al.* (2012: 723) find that different CG indicators have a significant impact on the performance of MFIs. Ahmad and Sana (2015) espouse financial performance as a determinant of better CG practices, recommending that policy makers and regulators in Asia should devise CG policies and guidelines in a way that does not undermine the financial objectives of MF; this view is not limited to Asia but evident in the rest of the world where MF intervention exists.

3.12.1 Corporate governance and MFIs

Prior studies provide evidence of the link between CG practices and performance in MF (Aboagye and Otieku 2010: 318; Thrikawala *et al.* 2013: 162; Galema *et al.* 2012: 721; Boehe and Cruz 2013: 121; 122; Mori and Mersland 2014: 288; Strøm, D'Espallier and Mersland 2014). However, all these studies provide separate investigations of different characteristics of CG and ignore their combined effect. Ahmad and Sana (2015), using a panel of 173 MFIs in 18 Asian countries between 2007 and 2011, constructed a comprehensive CG index (CGI), based on seven CG variables, as a proxy for the overall CG mechanism of MFIs.

Ahmad and Sana (2015) conclude that, although it is not evident that CG has a great impact on the financial performance of MFIs, financial performance drives CG mechanisms in MFIs. Thus, there is a two-way relationship between CG and financial performance of MFIs (Ahmad and Sana 2015). The authors further postulate that the phenomena of better CG mechanisms, which are present in more financially oriented MFIs, is an issue of prime concern; as it is a prerequisite for rigorous implementation of regulations, ensuring sound internal control and monitoring and supervision.

Ahmad and Sana (2015) consider that a measure of all CG variables is that certain characteristics of CG may complement other characteristics or may actually be a proxy for some other characteristics. This prompted the authors' construct of an index of seven CG variables, related to leadership and ownership dimensions (Ahmad and Sana 2015), from the perspective of the MF sector. Thus, CG and firm performance could jointly be determined by each other, hence suggesting the presence of reverse or two-way causality in their relationship.

Alix Valenti, Luce and Mayfield (2011) present evidence in support of resource dependence theory, by suggesting that board size and outsiders on the board are positively determined by firm performance. They confirm the bi-directional relationship and conclude that firm value is a determinant of board ownership (Alix Valenti *et al.* 2011; Ojo 2013:9).

A review of literature indicates that the board and management of MFIs lack adequate oversight and accountability and have failed to develop a strong control culture, in order to maintain a high level of control consciousness (Arunachalam 2011 and Franke *et al.* 2011). Boateng (2015), Arunachalam (2011), Haileselasie *et al.* (2014: 21), and Mbugua and Makori (2014: 78) espouse that MFIs have a weak Management Information System (MIS) and accounting system, as well as inadequate internal control and high employee turnover.

According to Arunachalam (2011), the myriad of weaknesses of the MFIs incapacitate them, as they do not have the strength to hold the rapid growth and "it was reaped in blowing ground". Thus, the sacrifices the MFIs have to make exceed the gains the institutions reap. The management and board are therefore, single-mindedly focusing on growth, increasing profit, and promoting equity investment (Sinclair 2012; Kinde 2012: 1-11). In many MFIs, the board neither reviews nor provides guidance concerning the alignment of overall company strategy with risk-appetite and the internal risk management structure (Arunachalam 2011). Thus, risk management will be poor (Kameshwari 2015: 70; Vishwakarma 2015a: 83 and 2015b), as risks identified by lower management perhaps never reach the board for appropriate mitigation (Arunachalam 2011).

3.12.2 Governance indicators for MF

Governing bodies define and uphold the organisation's goals and mission, guide major strategic directions, manage risks, and maintain an organisation's health over time, while ensuring accountability throughout the organisation. Kameshwari (2015) and Vishwakarma (2015b) posit the key pillars of good governance to include identified risk assessment and management, internal control systems, ethics and fraud prevention strategy, as well as transparency and trust.

Good governance is important as it can assist to:

i. Prevent fraud and mismanagement;
ii. Promote sound decision-making;
iii. Avoid costly fines and litigation;
iv. Create/maintain a positive corporate image;
v. Attract and retain clients;
vi. Attract and retain financing and investment (from commercial banks).

(Kameshwari 2015 and Vishwakarma 2015b).

Since CG also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls, to performance measurement and corporate disclosure (Arunachalam 2011 and Franke *et al.* 2011; Boateng 2015; Haileselasie *et al.* 2014: 21 and Mbugua and Makori 2014).

3.12.3 Corporate governance as a dual relationship

Some authors relate MFIs CG and leadership or other MFIs variables. Mustafa *et al.* (2011) assert that risks associated with poor leadership and CG are called administrative risks. Similarly, Ayayi (2011) exposes that MFIs with good governance practices have a low credit risk in Vietnam and hence, have lowered the loans write-off ratio and heightened portfolio quality. Makori, Munene and Muturi (2013) note, among other variables, that political interference and inadequate managerial competencies negatively influence the profitability of SACCOs in Tanzania. Mago *et al.* (2013) reveal that untrained managers and a lack of political will were some of the reasons for poor capacity in managing operational risk in MFIs in Zimbabwe.

All these assertions are directly applicable to the situation in Ghana, where political influence (Boateng and Agyei 2013: 158) exacerbates the management and operations of MASLOC, an institution whose operation is likened to the SACCOs of Tanzania and Kenya and other SSA countries operating in the eastern block of Africa.

3.12.4 Governance and MF performance

While some CG studies support the existence of unidirectional relationships, Ahmad and Sana (2015) extend their study to causal relationships between CG and the performance of MFIs, by first studying whether good governance in Asian MFIs of leads to improved financial performance. They later tried answering the question of whether more financially sustainable MFIs of Asia are also better in their governance structures. The study resulted in a construct, which combines different characteristics of CG, to determine an index specifically for MFIs, which they connote as a CG index (CGI) for MFIs (Ahmad and Sana 2015).

To this end, Labie and Mersland (2011) highlight the importance of good governance in the overall performance of MFIs. Coleman and Osei (2008: 238); Tchuigoua (2010: 439); Aboagye and Otieku (2010: 311); Hartarska and Mersland (2012: 221); Boehe and Cruz (2013: 126); Mori and Mersland (2014: 288; 290); and Galema *et al.* (2012: 733) present empirical evidence of how CG leads to improved financial performance in MF. These views express the significance of CG indicators on the performance of MFIs.

3.12.5 Governance and MF board structure

Board composition, according to Mbugua and Makori (2014: 75) and Ojo (2013: 9), is a central issue in the multiplicity of CG guidelines and codes of best practices that have been published at international, regional and national levels (for instance, King Code I, II and III; OECD Principles of CG; ICGN Statement; and World Bank Framework for implementation). Some of these legislation and guidelines do not adequately address issues regarding ownership, governance, and accountability, hence, these gaps have contributed to non-implementation, infractions and poor performance (Mbugua and Makori 2014: 78; 79) of the MFIs.

According to Mbugua and Makori (2014: 81: Ojo 2013: 9), board composition and level of expertise determine performance, through provision of strategic direction of the business. Most of these guidelines are directed at increasing board accountability to shareholders and improving board effectiveness (Mbugua and Makori 2014: 77).

Haileselasie *et al.* (2014: 21) emphasise that CG in MF is a mechanism where a board of directors establishes an appropriate business environment, to follow the operational activities of the management, and to achieve the overarching objective of the MFI. This assertion buttresses the fact that the composition of the board is as relevant as the existence of the board (Mbugua and Makori 2014: 77). Boards therefore need a blend of skills to be able to deliver their mandate to the stakeholders; and to maintain a sound control and risk management framework, with which to make strategic decisions, by internalising the framework (Haileselasie *et al.* 2014: 21) and the risk model (Mbugua and Makori 2014: 80) designed to accommodate change. Haileselasie *et al.* (2014: 21) intimate that monitoring and control of activities are the bases for ethical growth and sustainability of MFIs.

Ahmad and Sana (2015) note that financial performance, to some extent, drives CG mechanisms in MFIs, after controlling for MFI-related characteristics. The authors further relate good financial performance results to better CG practices, effective financial policies and regulations and emphasise the relevance of CG policies and guidelines that do not undermine the financial objectives of MF.

According to Kameshwari (2015: 69), CG practices in MF differ slightly from the routine definition because of MFIs' dual mission, ownership type, and board of director's responsibility and risk valuation. This emphasises that CG in MF devolves into leadership structure and ownership structure. The former involves the management and board of directors (Deville and Lamarque 2015; CSFI 2014; Foss and Stea 2014), while the latter relates to institutional setups (Ahmad and Sana 2015; Puyvelde *et al.* 2012) in MF.

In the perspective of MF, a board size of seven to nine members is considered ideal and five to 11 members is considered effective (Council of MF equity funds 2012). Hartarska and Mersland (2012: 228) uncover evidence of improved performance in MFIs, with a board size of up to nine members.

Considering a model of CG in which shareholder, board and management work together, Haileselassie *et al.* (2014) and Hofisi and Mago (2013) insist that:

- firstly, members of the board must be experts;
- secondly, board meetings and procedures should focus on debating new decisions and strategies, not just reviewing past performance;
- thirdly, directors need better access to information- on products, customers, and so on;
- fourthly, directors should be required to devote a substantial portion of their professional time to the corporation; and

- finally, board members must be compensated for work done. They should feel that their own personal fortunes hinge on their ability to create value through their service.

3.12.6 Governance and risk management in MFIs

Good governance ensures ethical practices in all business set-ups (Haileselasie *et al.* 2014: 21). Unethical practices are claimed as the causes for MF crises in different countries, including Ghana. This emanates from a teeming number of MFIs clustered in mostly urban zones, in contradiction of the prime motive of serving the rural poor (Constantinou and Ashta 2011: 188), who lack access to financial services and finance. This clustering, according to Constantinou *et al.* (2011: 190), results in intense competition among existing MF players and consumer lenders, which inevitably leads to an over-indebtedness of clients.

Ethical practices therefore, according to Haileselasie *et al.* (2014: 21), determine the success or failure of an organisation and MFIs are no exception. Ethics is the moral judgment and acceptable standards of a society, for guiding the behaviour of individuals and groups, with reference to societal norms and expectations (Hudon, Armendariz and Labie 2011: 124).

There are three kinds of ethical issues in MF, according to Hudon *et al.* (2011: 124). The first is concerned with economic, social, legal and political systems, while the second is related to individual behaviours, such as loan officers' manners towards borrowers, with the third being corporate or institutional ethical issues (Hudon *et al.* 2011: 125). Lepadatu (2011: 46) argues that better CG requires the adoption of a methodical approach to risk management, to protect the interests of stakeholders and shareholders because it ensures the existence and effective implementation (Gong and Janssen 2012; Nilsen *et al.* 2013) of all operational controls.

Other studies link governance structures (Dorsey 2014; Lahouel *et al.* 2014: 367) and financial decisions to credit risks and market access. Notably, Erkens, Hung and Matos (2012) discuss connections between board structure and the impact of the financial crisis. San-Jose, Retozala and Gutierrez-Goiria (2011: 153), quoted in Deville and Lamarque (2015), on the other hand, highlight the difference between deposit banks, commercial banks and cooperative versus ethical banks, in their research on ethical banks where an ethical bank is described as a bank whose owners define the business' ideals, values and objectives (Deville and Lamarque 2015). The authors indicate that transparency of information and asset investment set ethical banks apart from their peers.

3.12.7 Governance and internal control

Governance cannot exist without internal control; hence, internal control plays a cardinal role in CG (Njanike, Mutengezanwa, and Gombarume 2011: 189; 193). Njanike *et al.* put forward that internal control is the process implemented by the board of directors and management, to provide reasonable assurance that the organisational objectives are being achieved through safeguarding assets, compliance with applicable laws and regulations, reliability and transparency of financial reporting, and efficiency and effectiveness of operations (Njanike *et al.* 2011: 189).

It is clear that internal control is a whole system of controls (Adeyemi and Adenugba 2011; Vlad 2012: 166). Financial and otherwise, internal control is established by management (Deville and Lamarque 2015; CSFI 2014; Foss and Stea 2014), in order to carry out the business of the enterprise in an orderly and efficient manner, to ensure adherence to management, safeguard assets and secure, as far as possible, the completeness and accuracy of the records (Vlad 2012: 166).

Adeyemi and Adenugba (2011) examine the efficacy of internal controls and external audit in CG and observe the extent to which both have had an impact on CG practices. Their study reveals that both internal controls and external audit are, to a large extent, accountable for bad CG. Njanike *et al.* (2011: 188) expose that failure to implement internal controls effectively contributes significantly to poor CG in MFIs.

Lepadatu (2011: 44-49) argues that better CG requires the adoption of a methodical approach to risk management, in order to protect the interests of stakeholders and shareholders, as well as ensure the existence of operational controls. This further strengthens the argument advanced by Kameshwari (2015: 71) and Vishwakarma (2015a: 83) that CG holds the key to sustainability and growth of the MF sector and is achievable via internal operating and control procedures**.**

Vlad (2012) argues that the key elements of solid corporative governance include adequate internal control systems and transparency. Fadilah (2013: 29) emphasises that the implementation of internal controls (Adeyemi and Adenugba 2011) provides a greater contribution to the implementation of good governance.

3.12.8 Corporate governance failure in MFIs

Given the peculiar nature of ownership of MFIs and their quest for excessive profit, owner-managed institutions are increasingly evolving; and this compromises the tenets of CG, resulting in CEO-chairman duality. Coleman and Osei (2008: 239) are of the opinion that a two-tier board structure is considered more effective than a one-tier structure in MFIs because when both CEO and board chair positions are separated, it reduces the conflict (Puyvelde *et al.* 2012: 430; Bagozzi *et al.* 2013; Daly 2015: 17) between management and the board, hence increasing performance. When the roles of CEO and chairman of the board are merged, the CEOs have more power and freedom in decision-making, which could lead to riskier decisions (Galema *et al.* 2012) that include policy infractions.

Failure (Hill and Hupe 2015; Winter 2012) in CG practices emerged as a principal factor, linked to the recent, global financial crisis. Furthermore, there is a growing realisation that good CG can help in avoiding institutional problems and can provide many advantages for financial institutions. A key reason for the interest in CG and many of the current prescriptions for best practice and best fit for MFIs, is that they are needed for an efficient market and to facilitate economic growth (Rankin *et al.* 2012).

Similarly, CG has attracted much attention from different stakeholders of the MF sub-sector because many of the failures of MFIs in the past have been linked to the presence of weak governance system in those institutions. Quao (2011), Mbugua and Makori (2014: 73-84) and Kameshwari (2015) consider quality of management and governance (Haileselasie *et al.* 2014: 24; Mago *et al.* 2013) as one of the most pressing risks facing this industry.

Qualified and experienced directors bring skills (Warnier *et al.* 2013: 1366), such as banking and finance, legal knowledge, community developments, and social skills, along with information (Gillis *et al.* 2013: 449; Foss and Stea 2014) about the target market, into the MFIs. The presence of qualified directors is linked to increased MFI performance (Council of microfinance equity funds 2012).

Kameshwari (2015: 69) observes that MF is now a public agenda and good governance holds the key for sustainability and growth in this sector. The lack of CG standards is one of the main challenges facing the MF sector in Ghana (Boateng and Boateng 2014: 13; Addae-Korankye 2012: 139). Good governance is a necessity for any institution to secure long-term sustainability, in order to align policies and strategies (Haileselassie *et al.* 2014) with an institution’s mission or goals and also contributes to efficient management, considering stakeholder interests, boosting MFIs’ reputation and integrity, and fostering customer trust (Vishwakarma 2015b).

Posner and Weyl (2013) blame failures in governance on short-termism and over-accumulation (Harvey, 2011: 5) of democratically elected powers that have few incentives to run economic policies. Another camp blames the excessive power (Gong and Janssen 2012; Galema *et al.* 2012; Nilsen 2015; Nilsen *et al.* 2013) of the financial sector in domestic and international economies, financialisation and financial globalisation, with financial special interests colluding with politics, and unrestricted cross-border financial flows destabilising the global economy (Johnson and Kwak 2010).

In the MF specific sub-sector, this issue has to do mostly with ownership structure (Galema *et al.* 2012), as this determines the composition of the board of governance. Wo´jcik (2012: 347) asserts that financial sector problems are issues of governance, focusing on the nature of institutions and actors that affect economic outcomes, as well as the relationships among those institutions and actors.

3.12.9 Ghana's corporate governance framework

The monetary policy and financial sector reforms in Ghana have contributed significantly to increase banks' lending to the private sector (Addae-Korankye 2012: 137); the global credit crunch notwithstanding. CG has evolved out of the need to protect those who provide external finance to the MFIs, from those who have control over the firm (Chancharat *et al.* 2012). This clash of interest, between the management of the firm and the owners (Daly 2015; Desender *et al.* 2012), is usually referred to as 'the agency problem'. The attempt to mitigate the effect of this clash has been the driving force behind the evolution of CG.

There are three major legislative references for CG practice in Ghana are: The Companies Code 1963 (Act 179), the Securities Industry Law 1993, and the Ghana Stock Exchange (GSE) rules. Of these three, the one with the most relevance to SMEs in Ghana is the Companies Code 1963 (Act 179).

The Companies code has, nonetheless, not seen a major review since its passage and was assessed a decade ago by the World Bank, as ‘fairly strong’ (World Bank Report on the Observance of Standards and Codes (ROSC) 2005). The code outlines specific rules, with reference to different categories of stakeholders, adherence of which will ensure some adherence (Haileselasie *et al.* 2014: 21) to CG principles.

These rules include but are not limited to:

- Rights and responsibilities of Shareholders and Stakeholders;
- The responsibility of the Board;
- The role of the Board Chairman;
- Directors’ responsibility;
- Auditor appointment procedure and role;
- Disclosure and transparency;
- Equitable treatment of shareholders.

All companies registered under the Companies Code 1963 (Act 179), SMEs or not, are by default bound by the rules contained therein. However, without the ability to monitor and ensure compliance, even these minimal CG provisions will not be adhered to (Guérin *et al.* 2012; Cieslik *et al.* 2015).

The legal structure of MFIs in Ghana classifies MFIs into five categories: banks, rural banks, NBFIs, NGOs and credit unions or cooperatives (CGAP 2007 and 2008). Governance practices differ in MFIs, according to their legal status (Council of microfinance equity funds 2012). Hence, the legal status of an MFI determines its ownership structure and the decision-making power (BoG 2011). Since many of the MFIs are owner-managed and these owners dominate board decisions, their disposition to financial regulatory policies and implementation of these policies will be imbalanced.

3.12.10 Governance and related party dealing in MFIs in Ghana

The relationship of directors to the company is of a fiduciary nature and a director is bound to observe utmost good faith, both in transactions with the company or on the company's behalf (Section 203(1) of Companies Code 1963, Act 179). Section 250(1) of the Companies Code 1963, Act 179, states that the personal interest of a director shall not conflict with any of his duties as a director (Companies Code 1963 Act 179).

Ghana's 2010 Securities and Exchange Commission's (SEC) code on CG outlines the responsibilities of the CEO and Management; as it relates to fraud prevention. The document states, *inter alia,* the following responsibilities:

(i) operating the company in an effective, efficient and ethical manner;
(ii) selecting qualified staff and establishing an effective organisational structure;
(iii) identifying and managing risks undertaken in the course of the company's business;
(iv) ensuring the integrity of the company's financial reporting system that fairly presents its financial condition, to permit investors to understand the business, its financial soundness and risks;
(v) avoiding conflicts of interest; and
(vi) establishing an effective system of internal controls to give reasonable assurance that the companies and records are accurate

(SEC 2010).

3.12.11 Governance and corporate characteristics

Firm age, size, risk and regulatory status are firm specific factors, other than performance, that also affect CG practices of a firm. Authors, including Ahmad and Sana (2015), measure the age of MFIs as a log of years since establishment of the MFIs, its size as a log of total assets of an MFI (Mori and Mersland 2014: 296), and risk as portfolio at risk 30 days past due (PAR 30) (Hartarska and Mersland 2012: 27).

3.13 MF regulation

The proposed, new model of commercialising MF removes poverty alleviation from the direct organisational goals, which leads to a much clearer organisational focus: supporting job creation and entrepreneurial self-employment activities (Ali 2015a: 124; Bredberg and Ek 2011; Lieberman *et al.* 2012 and Edgcomb 2012). Pursuing these activities creates a competitive environment where MFIs ability to operate and survive could result in bending the operating rules (Zahra *et al.* 2013; Cieslik *et al.* 2015; Foss and Hallberg 2014; Guérin *et al.* 2012).

Bredberg and Ek (2011) assert that by distinctively defining organisational goals, targeted clients can be well identified and the risk and return associated with those clients can be clearly established. Other writers support this argument variously. Lieberman *et al.* opine that with a group of clearly identified clients or a clear market section in which MF operates, the proposed new model enables a MFI to operate as a commercial business (Lieberman *et al.* 2012). This will facilitate access to a much larger capital pool, not limited by charity funding (Mbugua and Makori 2014: 78), and to achieve greater scale (Ledgerwood 2012) in MF operations.

As a result of the access to a larger supply of funding and a greater number of viable clients, a MFI will not only be able to achieve meaningful scale, but will also be able to reduce its costs (Mbugua and Makori 2014: 77; Ojo 2013: 3; Ledgerwood 2012).

Removing poverty alleviation from the organisational goals, the new model is no longer constrained by its social mission of fighting poverty (IFC 2014; Aveh *et al.* 2013b). Therefore, it enables MFIs to focus on following a rigorous business model, consistent with for-profit organisations. The introduction of a for-profit management system should greatly improve the administrative efficiency and effectiveness.

The relevance of regulation and compliance, as per agency theory (Song *et al.* 2015; Puyvelde *et al.* 2012), social entrepreneur theory (Zahra *et al.* 2013; Cieslik *et al.* 2015; Guérin *et al.* 2012: 128), and the recommendations of several other authors (for example, CGAP 2011; Ali 2015a: 124; 2015b: 78), makes this study timely and places it in context.

Adoption of a sound system of regulation and supervision framework has gained substantial attention at the top level. The rationale of that attention is to minimise the effects of market failure (Bredberg and Ek 2011), protect public deposits and small depositors, ensure integrity and financial stability of financial systems, and promote efficient performance of the institutions (Ali 2015a: 124; 125). The regulatory framework of any country should therefore, have a clear rationale and objectives for regulating the financial sector (CGAP 2011). Otherwise, it will lead to waste of scarce supervisory resources, unnecessary compliance burdens of licensed institutions, and development of the financial sector will be constrained (CGAP 2011 and Ali 2015b).

Hence, any authority needs to design an effective regulatory and supervisory system for MF that is flexible enough (Santos 2012: 335; Smith and Katikireddi 2012; May 2014; Little 2012) to comply with the diversity of clients, permit fairness and be cost effective. According to CGAP (2011) and Christen, Lauer, Lyman and Rosenberg (2011), the regulatory and supervisory system should be flexible enough to fit into the environment (Santos 2012: 338; Rivera-Santos *et al.* 2012) in which the MFIs operate, the market niches they serve, and their complex institutional design (Cairney 2012: 1-12).

Ali (2015a: 123; 125) states that "regulation" refers to the set of government rules that apply to MF, while "supervision" is the process of enforcing compliance with those rules. According to a Business Dictionary definition, regulation is a 'principle or rule (with or without coercive power of law) employed in controlling, directing or managing an activity, organisation or system' (www.BusinessDictionary.com). As per a Google search, the free dictionary defines regulation as the principle governing conduct, procedure or behaviour to conform to accepted standards; to those it applies.

In a financial context and that of this study, regulation is a system of supervision that subjects financial institutions to certain requirements, restrictions and guidelines, aiming to maintain the integrity of the financial system. This definition informs the promulgation of financial policies by government regulators or link groups to protect investors, maintain orderly markets and promote financial stability (Ogbulu *et al.* 2015: 79; May 2014). Thus, regulation aims at building market confidence, financial stability, consumer protection and reduction of financial crime (Ali 2015b; May 2014). These aims then become the mainstay of every financial system and determine the core objective (May 2014; Nilsen *et al.* 2013; May 2013: 5; Gong and Janssen 2012) of financial regulators.

From the definition, it is also evident that financial regulation policies constitute the foundation basis (Boateng and Boateng 2014) for the mechanisms through which financial development exerts a positive impact on economic growth and poverty reduction. The regulation of MF will amount to safeguarding the safety net of the poor because bank failure and fragility have a tremendous, negative impact for SMEs, from which the mass of the population derives their livelihood (Boateng 2015: 8).

3.13.1 The need for MF regulation

It is expected that a standard legal framework for MFIs should be in place that will identify the role of the regulatory authority (Nilsen *et al.* 2013; May

2013: 7), the rules for MFI entry and exit, and the boundaries and benchmarks for sustainable operations (Gong and Janssen 2012). An appropriate regulatory setting (CGAP 2011) can create due environment and provide encouragement to these MFIs to raise sufficient cash flow, in order to reduce their donor dependency.

Hence, the justification of regulating MFIs should be: to protect the interest of the small depositors; enhance liquidity management; develop operational, as well as financial, sustainability; and to protect against moral hazards (Ojo 2013: 3; Song *et al .*2015; Puyvelde *et al.* 2012). Ideally, regulation should encourage MFIs to avoid excessive risk (Boateng 2015: 59; 60) in their operations, as it aids in strengthening MFI reputation and preventing fraudulent activities (Sinclair 2012; Kinde 2012: 2; Cieslik *et al.* 2015), through increasing transparency in financial accounting, transaction reporting and increasing operational and financial sustainability.

According to Mbugua and Makori (2014: 78), regulated MFIs operating as MF banks have wide access to capital, including cheaper customer deposits, hence leading to reduced funding costs. The authors further assert that regulation will ensure access for MFIs to wider funding, due to stronger governance structures, risk management policies, and the ability to attract investors, leading to high growth and profitability (Mbugua and Makori 2014: 81).

Effective regulations (Lieberman *et al.* 2012) are also essential for improving performance and sustainability of MFIs. Various authors assert that regulations foster effective credit risk management for MFIs. Since the social intervention objective of the MF has changed to profitability and sustainability (Rahim and Mohtar 2015: 9-15; Santos 2012: 337), there is the need to see MF as an initiative in support of job creation, instead of poverty alleviation (Bredberg and Ek 2011; Lieberman *et al.* 2012; Edgcomb 2012).

This situation demands unique regulation for MFIs, in order to ensure their continuity and forestall systemic risk (Bredberg and Ek 2011). Magali (2014) postulates that formal MFIs are generally regulated under the banking legislation and supervised by central banks, while semiformal institutions, such as NGO-MFIs, are regulated by either an apex organisation or other government body. Their study notes that the formal MFIs regulations seemed to be effective but the internal control, governance and ownership structure (Desender *et al.* 2012; Dorsey 2014; Lahouel *et al.* 2014: 372) were disappointing for NGO-MFIs. Magali (2014: 276) argues that regulators should focus on the protection of depositors and encourage MFIs to improve their outreach and sustainability.

Findings further assert that good regulatory and supervisory practices for MFIs are essential for improving credit risk management (Founanou and Ratsimalahelo 2012: 64 and Nzaro *et al.* 2013) for MFIs. Sebhatu (2011) and Magali (2014) proposes a modified regulatory practice for MFIs, as in the banking sector, while they are discouraged with existing regulations.

Jenkins (n.d.) quoted in Magali (2014) avers that, as per the MF regulations, Senegal does not allow MFIs to adjust their rates to levels that will provide adequate earnings to cover their operation losses. This scenario applies to most MFIs in Africa, including those in Tanzania. The study argues that the regulators should consider formulating and revising their laws, in order to enable implementers to adapt it to suit their operational procedures (May 2014; Little 2012; Smith and Katikireddi 2012); so as to favour the growth and performance of MFIs.

Founanou and Ratsimalahelo (2016: 64) and Nzaro *et al.* (2013) posit whether regulation and monitoring will curtail the rampant demise of MFIs. The focal point of available research is on impact assessment of MFIs, producing little or nothing on the role of monitoring policies in facilitating MF performance. However, many other authors broadly touch on regulation. Cull, Demirgüç-Kunt and Morduch (2009) conclude that regulation will allow MFIs to evolve more fully into banks, particularly for institutions aiming to take deposits.

Onoyere (2014: 99) identifies the need for the establishment of MF policy and goals, policy strategies, and frameworks for the supervision of MF banks to address the challenges of MFIs. The author further indicates that government should, as a matter of urgency, license, regulate, monitor and evaluate the performance of MFIs, for the objective of poverty reduction and socio-economic development through MF to be achieved.

A financial monitoring policy for MFIs will, according to Onoyere (2014: 99), promote synergy and mainstreaming of the informal sub-sector into the national financial system; enhance service delivery by MFIs to their clients; contribute to rural transformation, and the transformation of the institutions themselves (Lieberman *et al.* 2011), as well as promote linkage programmes between universal/development banks, specialised institutions and MFIs.

A MF policy framework, which recognises existing informal institutions and brings them within the supervisory purview of the mandated authority, would not only enhance monetary stability (Ali 2015a: 123-129), but also expand the financial infrastructure of the country, to meet the financial requirements of institutional and individual clients. Such a policy, according to Onoyere (2014: 99), would harmonise operating standards (Smith and Katikireddi 2012; May 2014; Little 2012). It will also provide a strategic policy for further evolution of MFIs, promote appropriate regulation, supervision and adoption of best practices (Wilkinson and Frost 2015 and Squires *et al.* 2014).

This research fills this gap and provides the impetus for further research on the monitoring of MFIs (Quao 2011; Sowmyan *et al.* 2011; Bateman 2015(a); Busch *et al.* 2015: 3; Hassan and Said 2014).

3.13.2 MF regulatory issues in Sub-Saharan Africa (SSA)

According to Ndambu (2011), from an institutional setup, while commercial banks are downscaling, MFIs are moving up-market, resulting in convergence between the so-called finance-for-growth and finance-for-all; that MF represents. Recognising that MF is more and more integrated into the mainstream financial system brings calls for regulators to set up the rules of the game in this industry.

CGAP (2011) avers that there is a concerted tendency to regulate MF activities in SSA, with diversified approaches, in several dimensions. The CGAP indicates that the type of legislation and the object of the regulation has become a prime concern for many countries in SSA. Nonetheless, according to Ndambu (2011) and Khalily *et al.* (2014: 8), many countries have taken a pragmatic approach to the supervision of the sector; MFIs are either regulated by a specialised law or accommodated within the existing banking law (Ojo 2013: 8).

Many countries, including Tanzania and Sierra Leone, have placed the supervision of MFIs under the same body that supervises banks and other financial institutions, as an alternative. In Ghana, however, MFIs implicitly fall under legislation for banking or non-banking financial institutions, with the BoG, as the mandatory regulator of the country’s financial system (BoG 2011).

3.13.3 MF regulatory approach in Ghana

In Ghana, the BoG Act, 2002, Act 612, mandated the BoG to protect the interest of all depositors and ensure stability in the overall banking system (Reiter and Peprah 2015). Effective regulation of MFIs was initiated in 2011, resulting in the creation of tier categorisation of the MF sector for registration and operational purposes (BoG 2011; 2012). The tier system offers tiers 2, 3 and 4 for all MFIs, which determine the minimum capital requirements, licensing types to be issued and restricts the practitioners to tier level activities (BoG 2011; Reiter and Peprah 2015).

MFIs in Ghana are registered and operated under the supervision of the BoG and are guided by the Ghana Microfinance Policy (GHAMP) 2007. Thus, in Ghana, the oversight of the financial system is the jurisdiction of the BoG and the Securities Exchange Commission (SEC) (BoG 2011).

These institutions provide the guidelines for licensing and operations of all kinds of financial service operators in the country. The BoG Act 612 of 2002 governs the BoG. The Act authorises the BoG as the regulator and supervisor of the financial sector. The legal framework for the BoG to regulate the banking sector is set out in Banking Act No. 673 of 2004. The Act is the principal governing law for all commercial, rural and community banks in Ghana. The Banking Amendment Act No.738 of 2007, to cater for the International Finances Services Center and deal with foreign direct investment and other foreign income (MoFEP 2013), subsequently amended the Banking Act.

The recent spate of sporadic problems besetting the sub-sector, and based on research recommendations, Ghana's financial system regulator is currently encouraged to formulate a regulatory system for MF, through mandated standards of performance that will assist the financial sector, in moving from a less-regulated environment, to a tightly-regulated one (BoG 2015). The delay might be caused by seeking parliamentary approval for implementation. Ghana's MF sub-sector, as with other MF sectors in neighbouring countries in SSAca, is regulated and supervised under different jurisdictions and laws and somewhat mandated bodies, such as GHAMFIN, as a broader umbrella institution for GAMC, ASCUA, GCCUA and the ARB Apex (Aveh *et al.* 2013b: 558; Boateng 2015).

According to the views expressed by Ogus and Carbonara (2011: 237), ‘regulatory policy is formulated by the government; legislative principles incorporating the policy are passed by Parliament; to flesh out the principles, powers are conferred on a Minister to promulgate rules, generally by means of a statutory instrument. These rules are subject to enforcement by a specialised agency; the courts are responsible for the adjudication of disputes and the imposition of sanctions.’ The authors further indicate primary legislation, which are inferred as laws and acts, generally define the broad framework under which financial institutions conduct business.

The main focus, at this level, is on standards rather than rules, with the premise that it is more important to give general guidance to MFIs, than to prescribe specific target levels (BoG 2011). The general standards, under which MF business is conducted, remain relatively stable over time (CGAP 2011). Furthermore, political theory tells us that financial institutions should be subject to parliamentary scrutiny, as the setting up of a regulatory framework for MF is a genuinely political decision (BoG 2011; Boateng 2015).

Basel Core Principles posit a framework of banking law that “sets out minimum standards banks must meet; allows supervisors sufficient flexibility to set prudential rules administratively, where necessary, to achieve the objectives set, as well as to utilise qualitative judgment” (Basel Committee on Banking Supervision 1997). In addition to primary and secondary legislation, the supervisory authority may publish guidelines (BoG 2011), with the main function of further explaining existing laws and regulations.

Ghana’s NBFI Law of 1993 caters for nine different types of financial institutions, of which only a few offer MF services (NBFI Act 1993). Ghana defines specific regulations, directives and guidelines for *rural banks*. The division of power between the executive and the central bank in Ghana differs for banks and NBFIs. The Minister of Finance (formerly called the

Provisional National Defence Council Secretary, as still stated in the law) is in charge of issuing banking regulations (www.mofep.gov.gh), with the only restriction that the central bank must be consulted before doing so. Yet, supervisory authority remains with the central bank (Banking Act 673 of 2004).

This pronounced conflict mandated the BoG to issue regulatory guidelines to ensure sanctity and create a level playing field for all providers of financial services (BoG Banking Guidelines 2011; 2013; 2014). According to a Bill for an ARB Apex Bank Law, which is currently pending before Parliament, on-site inspections of *rural banks* will be delegated to the recently established Association of Rural Banks (ARB) Apex Bank. The ARB Apex already secures the platform for regulating and building capacity for all RCBs and serves as their clearing platform.

MFIs equally fall under the umbrella of the GHAMFIN for regulation and capacity building. Though these institutions are found at different tier levels and are subjected to formal and informal regulations (BoG 2011), the categorisation of regulatory power, as might be done on purpose to reduce the supervisory burden of the central bank (BoG 2015), creates splitter roles in the entire financial sector in Ghana.

These stakeholders: ARB Apex, GHAMFIN, GCCUA, AsFIN and the rest in the sub-sector, play various roles expected to be complementary (MoFEP 2013). Due to the lack of clearly defined areas of operation, the roles and responsibilities of stakeholders currently overlap in most cases. The overlap is also partly due to organisational and institutional hierarchy and reporting relationships among all the stakeholders not being clearly defined in the Banking guidelines.

There is a need therefore, to clearly define relationships and roles to enhance effective implementation and delivery of services. These conflicting roles still have political dominance (May 2014; Winter 2012) and thwart efforts to ensure coherence and compliance. Thus, MFIs take advantage of the freewill and unspecific nature of the MF operating guidelines, or rather, the conflicting front of the institutions to operate with little regard to the regulations set for them.

In the majority of SSA countries, the central bank is both the supervisory authority and the rule-making power for subordinate legislation. The ministry of finance and economic planning (MoFEP) in Ghana oversees the MF division and monitors MFIs' operations, whilst the BoG has overarching control over the financial system and indeed, has a banking supervision division, which devolves into formal and other banking operations (Banking Law Act 673 of 2004). This fragmented oversight calls for better coordination and collaboration among key stakeholders, including development partners, government and other agencies, which could help to better integrate MF with the development of the overall financial sector (BoG 2007).

There are primary and secondary legislation regulating the MF industry in Ghana. While Ghana does not have separate laws to promote MF, it does have the Banking law of 1989 and the NBFI Act of 1993, as primary legislative instruments for the regulation of the financial sector. However, the financial authority, the BoG, formulates guidelines for MF, as a legal framework for their regulation and supervision (Bog 2011).

The guidelines categorise the financial sector into tiers, based on various criteria, including: registration requirements, minimum capital, approved activities, and loan caps, branch operations and deposit requirements, as well as unauthorised practices (BoG 2011). Other issues stipulated are: MFI license issuance, revocation, and restriction; ownership and management structure; terms for periodic reporting, and reporting requirements. The recent guidelines differentiate between regulated MFIs and unregulated MF lenders (BoG 2011), as MFIs are required to incorporate the terms

‘Microfinance’, ‘Susu’ or ‘Money lending’ into their names, to distinguish the service operators at each tier level.

The second element, after the primary and secondary legislation, is the supervisory authority and delegation. The main supervisory authority for financial institutions is the BoG, which maintains prudential oversight, while MF activities are delegated for supervision by the MF Finance Unit of the Ministry of Finance and Economic Planning (MoFEP). With this as basis, Ghana has defined four regulatory tiers, with distinct banking rules and guidelines that represent both formal and informal MF providers (BoG 2011).

In order to facilitate supervision, various umbrella institutions were allowed to be established by the different categories of the financial sub-sector. Apart from DT-MFIs, which are of the tier two category, the other informal MF providers in the tier three and four categories are regulated under different, formal, umbrella institutions. These include GCCUA, AsFIN (which is a peer association), GSCA and the like, with GHAMFIN as a bigger umbrella body, to maintain a clean register for its members (Boateng and Boateng 2014: 11-14). Based on this, it is proper to say that the MF sector is regulated both formally and informally. Hence, there is a good number of MF licenses issued, based on each financial sub-sector category in Ghana (BoG 2011). The MF sector in Ghana is, therefore, regulated under various secondary legislation, as discussed, with regulations comprised mostly of BoG guidelines and banking rules; however, the appropriateness of these guidelines are yet to manifest.

To promote the sub-sector, Ndambu (2011) suggests two peculiar approaches: the most popular approach “laissez-faire”, consists of leaving the door open for MFIs’ entry into the sector and affording institutions enough time to develop and mature, before starting to regulate. In contrast, the second approach consists of setting up a regulatory framework at a very early stage of the MF sector's development, in order to reduce the cost of failure (Puyvelde *et al.* 2012; Bagozzi *et al.* 2013).

The laissez-faire approach relies on the assumption that regulating the sector too early could stifle innovations (Kuratko *et al.* 2015b: 249 251; Guérin *et al.* 2012) and impede institutions to serve the poor. The second approach represents the strong belief that some institutional forms are better positioned to reach out to the poor, thus making an outstanding contribution to the goal of financial inclusion. This second approach aims at maintaining sanity (Ogbulu *et al.* 2015: 85) in the financial sector of each economy; which commercialisation requires in ensuring confidence in the sub-sector.

The BNFI Act No. 774 regulates non-bank financial institutions and licensed moneylenders in Ghana. In an effort to include the previously unregulated MF sector within its scope of regulation and supervision, the BoG issued Operating Rules and Guidelines for MFIs, in July 2011 (BoG 2011).

The guidelines (BoG 2011) divide the financial intermediaries in MF into four tiers and set out the regulations for each of the tiers:

- Tier 1: RCBs, Finance Houses and SLCs;
- Tier 2: Susu companies and deposit-taking, for-profit financial NGOs, but not Credit Unions;
- Tier 3: Money lenders and non-deposit-taking financial NGOs;
- Tier 4: Susu collectors and individual money lenders.

This is to ensure control and maintain supervision of the operations of MFIs in Ghana, as is the case in most countries in SSA. Thus, a tiered system of regulation depends on whether the institutions are formal, semi-formal or informal in nature (BoG 2011).

Formal institutions, including RCBs, NBFIs, and SLCs, licensed and supervised by the BoG (Boateng 2015; BoG 2011).

Semi-formal institutions, which consist of the credit unions, are not regulated by the BoG, however, they are registered with the Registrar of Cooperatives and the NGOs, which in turn, are registered with the Registrar of Companies, as companies limited by guarantee (not for profit) (*MFTransparency* 2011).

Informal institutions, consisting mainly of the Susu collectors, fall outside the scope of regulation (*MFTransparency*, 2011). However, the Banking Act of 2004 and the NBFI Act of 1993 regulate only tier one institutions, to the neglect of the other tiers that are purported to have been covered by it.

The non-deposit sub-sector, which dominates MFI operations, does not fall under the jurisdiction of the various national, financial sector regulators, such as the BoG (Warue 2012); except for licensing requirements (Ghanaian Chronicle 2013; BoG 2012). This sector is therefore, not licensed to take deposits from the public and is coordinated by various, umbrella, apex institutions (Ojo 2013: 1-17), such as the GHAMFIN, Ghana Cooperative Credit Unions Association (GCCUA), Association of Rural Banks (ARB) Apex, and Ghana Association of 'Susu' Collectors (GASC) in Ghana.

These bodies are mandated by the national bank as being the key regulators of informal and unregulated MFIs, as well as being the watch-dogs (Ojo 2013) of the financial policies regulating the industry. The split structures therefore defy coherence and hence, divergence in policy implementation results (Boateng 2015). This stems from there being no overarching monitoring body that oversees the apex structures (Ojo 2013: 5), to ensure consistency in the regulator's policies (Boateng 2015).

MFIs need a financial monitoring system (Warue 2012) to stipulate their operational requirements, internal conduct and monitoring and supervision

(Addae-Korankye 2012: 138), as poor regulatory policies (Zahra *et al.* 2013) are becoming a major challenge. As Mohr and Wagner (2011) state, "improvement of regulatory governance arrangements should be a building block of financial reform". The cry for regulation and supervision was heightened, prompting much attention, resulting in various consensus guidelines having been formulated (Ojo 2013).

The guidelines are purported to be adapted to country specific environment by various countries; Ghana is no exception. Yet, as stated in Boateng (2013), legislation without implementation, monitoring and supervision, is a mere hallucination. The guidelines are dovetailed in the GHAMP over the years, the latest in 2007, without affecting the operations and operating mechanisms of the MFIs.

The relevance of these guidelines to the development of the sub-sector is, however, questioned (Balogun and Abraham 2012). These challenges emanate from structural inadequacies and weaknesses in regulatory (Zahra *et al.* 2013) and facilitation supervision guidelines of the apex bodies (Ojo 2013); resulting in massive failure in the industry (Balogun and Abraham 2012). According to Mohr and Wagner (2011), weak regulatory governance promotes weak financial sector governance in general, which in turn, impairs the smooth functioning of the financial system (Zahra *et al.* 2013), curbing economic performance and growth (Sorsa 2015). Creating a suitable business environment and first-rate regulations, according to Sorsa (2015), can aid in turning the present situation around; especially in promoting the ever-compounding, innovative products (Kuratko *et al.* 2015a) being proffered by the sub-sector.

Nzaro *et al.* (2013) opine that universal regulations that will work for MFIs in practising countries are needed, to promote the concept as a model for economic and social development (Kumar and Gupta 2013; Sorsa 2015; Kuratko *et al.* 2015a: 2). However, it is viewed differently by CGAP (2011), with an appropriate MFI regulatory approach proposed that must be based on an understanding of the risk profile (Boateng 2015) of MFIs and the legal and institutional framework of a given country (CGAP 2011). In some countries, it may be necessary to regulate MFIs to manage their risk profile effectively (Boateng 2015). This affirms Mohr and Wagner's (2011) assertion that weak financial sector governance, in general, results from weak regulatory governance.

In assessing the problems besetting the sector and the attending collapse (Balogun and Abraham 2012), the pressing need for regulation (Addae-Korankye 2012: 136) in Accra, Ghana has become urgent. These issues highlight the need for research into monitoring policies that will compel governments and regulatory agencies to renew or develop policies for MFIs, ensure that these institutions are directed towards sustainability (Kipesha and Zhang 2013) and that mechanisms for professional monitoring and supervision adhere to best practice (Balogun and Abraham 2012).

Ghana has a reasonably diversified and supervised regulatory framework for formal financial institutions licensed by the BoG. However, there is concern that appropriate regulation (Boateng 2015: 58) needs to be extended to other institutions operating in the MF sub-sector (Addae-Korankye 2012: 136) for example, the legal framework for credit unions, which is still not developed. This is expected to improve the outreach, sustainability and efficiency of savings, facilitate credit delivery, and institutional arrangements (Kipesha and Zhang 2013; BoG 2007 and Boateng 2015).

As described by Boateng (2015), RCBs are currently regulated under the Banking Act 2004 (Act 673), while SLCs are, at present, regulated under the NBFI Law 1993 (PNDCL, 328). On the other hand, Boateng (2015) states that the regulatory framework for credit unions is still not developed to reflect their dual nature as cooperatives and financial institutions. The rest of the players, such as FNGOs, ROSCAS, and ASCAs, do not have explicit legal and regulatory frameworks, and are largely unregulated (BoG 2011). This includes those engaged in money lending and the ‘Susu’ operators, both categorised at different tier levels (BoG 2011), as they are still registered and supervised under the banking guidelines.

While specific regulatory policy is not in place for MFIs (BoG 2011; CGAP 2011), attempts are being made to ensure their continuous operation (Boateng 2015).

The deficiencies of the informal MF sector compelled the Government of Ghana (GoG) to introduce a MF policy in 2006, as a prelude to the licensing and regulation of MFIs in Ghana (Boateng 2015). According to this policy document, its aim is to provide a MF framework that would enhance the provision of diversified MF services (Guérin *et al.* 2012), on a long-term, sustainable basis, for poor and low income households (Addae-Korankye 2012: 136; Kipesha and Zhang 2013). It is also to build a platform for the setting up of MFIs and to improve the BoG’s regulatory/supervisory performance (Viswanathan 2014), in ensuring monetary stability and liquidity management (BoG 2011 and Boateng 2015).

New companies were licensed to began operations in 2011, with existing institutions, and non-deposit taking FNGOs that met conditions spelt out by the BoG for licensing, allowed to metamorphose into MFIs (BoG 2011). These changes in the policy framework establishing MF were due to the increasing collapse (Bagozzi *et al.* 2013; Freeman *et* al 2012: 1-3) of many MFIs and failure (Puyvelde *et al.* 2012: 430; Foss and Hallberg 2014) of the existing MF framework.

Specific rules for establishing MFIs in Ghana are detailed in the Banking Rules for MFIs (BoG 2011). These rules state that, among others, to qualify for a MF license, MFIs are required to have a paid-up capital of GH¢500,000 (deposit taking) and GH¢300,000 (non- deposit taking). Unlike the RCBs banking legal framework, which compulsorily confines all RCBs to a particular catchment area, the MFIs' operating rules and guidelines permit the branching of MFIs throughout the country (BoG 2011; 2014). Nonetheless, branching is approved, provided MFIs are able to meet additional capital requirements (1-5 branches attracts an additional paid-up capital of GH¢100,000 and a furtherGH¢200,000, should the branches exceed five) (BoG 2011; 2014).

Another point of divergence between the RCBs and MFIs is to whom the regulatory guideline allows ownership (BoG 2011). The Banking Guidelines of 2011 state that shareholding of MFIs, such as Susu companies, Deposit taking FNGOs and money-lending companies, shall be restricted to only Ghanaians. Shareholding in non-deposit taking MFIs may be exclusively Ghanaian, exclusively foreign or jointly Ghanaian and foreign (BoG 2011).

3.13.4 Types of regulation for financial institutions

Regulation is needed for the MF sector because MF deals with poor people's money (Khalily *et al.* 2014: 1-32; Ojo 2013: 7). According to Ndambu (2011), the choice of regulation for MFIs must consider the cost of compliance. Ndambu (2011) further indicates that the cost of regulation directly correlates with the scale of economies (Bagozzi *et al.* 2013; Daly 2015), rather than on-going cost, as banking operations have large, indivisible costs, in terms of time and lending activities. Moreover, Ndambu criticises frequent reporting to the supervisory authority on the MFIs' financial position, as these institutions specialise in small transactions, as opposed to conventional banks (BoG 2011).

Accordingly, Rahman and Luo (2012) quote Staschen's 2003 conjecture that MF regulation can be viewed in three perspectives of political, regulatory and institutional; Villacorta *et al.*'s risk management, solvency and social performance perspectives and Abbey's minimal, self-regulation and formal regulation perspectives. What remains common to these assertions, is that

Staschen's institutional perspective, Villacorta *et al.*'s social performance perspective, and Abbey's minimal perspective, points to the need to craft sector-specific regulation for MF; a regulation that will maintain some soft prudential elements (Turner 2012: 549; 552) and some non-prudential elements.

Though supportive of the crusade for regulation because the sector deals in poor people's money (Khalily *et al.* 2014: 3), Rahman and Luo (2012) assert that separate regulation (in the context of this study, 'hybrid' regulation) is needed for MFIs, evolving guidelines while keeping the objectives of socio-economic development of the poor (Arun and Kamath 2015: 267, 268) in view. Turner (2012: 551) posits instances where 'soft regulation', which he describes as "informal prescriptions that nonetheless authoritatively shape expectations of appropriate conduct by governing elites and can control outcomes in international problems", works better than rigid prudential legislation. Accordingly, Khalily *et al.* (2014: 6) espouse that the exponential growth of MF sector in the past three decades calls for a regulatory framework to ensure their heterogeneous systems and innovative (Rahim and Mohtar 2015) practices, under a single umbrella.

According to Puyvelde *et al.* (2012), financial regulation could either be prudential or non-prudential and the importance of the distinction is vital in categorising how financial institutions of various dimensions are monitored (Puyvelde *et al.* 2012).

3.13.5 Prudential regulation for MFIs

According to Acharya (2013: 57), regulation is prudential when it aims specifically at protecting the financial system as a whole, as well as protecting the safety of small deposits in individual institutions. MF providers that take deposits need prudential regulation (Sinclair 2012; Addae-Korankye 2012: 139; Balogun and Abraham 2012; Ojo 2013; Nzaro *et al.* 2013; Sinclair 2012; Founanou and Ratsimalahelo 2016: 64; Ogbulu *et al.* 2015).

The prudential regulation (Ali 2015a: 125) for any financial institution rests on the need to protect depositors from the loss of their savings, preserve confidence and strengthen the financial system (Mohr and Wagner 2011). Prudential regulation or supervision governs the financial soundness of licensed intermediaries' businesses, in order to prevent financial system instability (Founanou and Ratsimalahelo 2016: 64; Katwaroo-Ragbir 2013; Economist Intelligence Unit 2012) and losses to small, unsophisticated depositors. Such external regulation can be implemented through the existing regulatory and legal framework (Katwaroo-Ragbir 2013).

Founanou and Ratsimalahelo (2016: 66) assert that prudential regulation is rarely applied to MFIs but they are subject to a non-prudential regulation that addresses issues such as, the formation and operation of MFIs, consumer protection, fraud and financial crime prevention, and interest rate policies, as well as accounting and other best practice issues in many countries (Founanou and Ratsimalahelo 2016: 66). Furthermore, prudential regulation plays a supportive role in building confidence between MFIs and their clients, through appropriate capital management, earnings and strong, internal control mechanisms (Mohr and Wagner 2011).

Based on general observation and levels of MF operation in SSA, the assets of MFIs remain substantially less than those of formal providers of financial services (Aveh *et al.* 2013b; Boateng 2015: 52; 53); most notably, banks with predominantly small, uncollateralised loans. Thus, they do not yet pose a risk to the stability of the overall financial system in most countries (CGAP 2011). The CGAP assertion emphasises that MFIs do not need prudential regulation.

However, Addae-Korankye (2012: 136); Nzaro *et al.* (2013: 429-438); Sinclair (2012); Founanou and Ratsimalahelo (2016: 64) and Ogbulu *et al.* (2015) posit that the increasing share of MFIs taking deposits from the public is what triggered prudential regulations for MFIs, as many of the depositors are relatively poor (Christen *et al.* 2011). Protecting the safety of those deposits provides a rationale for improved regulation and supervision of MFIs. Regulation is needed for two reasons, according to Khalily *et al.* (2014: 8): to formalise the MF industry and to regulate and monitor the MFIs. According to the authors, regulating the sector will make the microcredit market competitive and help MFIs adopt strategies (Turner 2012: 547) to be more efficient (Khalily *et al.* 2014: 25).

Contrary to Addae-Korankye (2012: 135-141); Nzaro *et al.* (2013); Sinclair (2012); Founanou and Ratsimalahelo (2016: 64) and Ogbulu *et al.* (2015: 79); Balogun and Abraham (2012) and Ojo (2013), Turner's (2012: 553) view reflects the opinions of other authors (Rahman and Luo 2012; Khalily *et al.* 2014: 8), who intimate that prudential regulation will be inimical to the sustainability of MFIs. Khalily *et al.* (2014: 13) agree that formal regulation will limit the independence of the MFIs and make them less cost effective and hence, leads to mission drift.

Formal (prudential) regulation is shown to have worked in limited instances, such as India and China and perhaps South Africa and Nigeria, where separate authorities (sentries) are created. Rahman and Luo further state that soft law provides a practical and efficient means of adopting rules (Rahman and Luo 2012) and enforcing compliance (Turner 2012); this occurs due to state concern about both reputational and direct sanctions, triggered by violations of the law.

In many jurisdictions, of which Ghana is no exception, there is wide recognition that compliance with, and enforcement of prudential regulation is usually more complex, difficult, and expensive than non-prudential regulation, for both the regulator and the regulated institution (Ali 2015b; CGAP 2011). This can be particularly problematic in some developing countries, where regulators and supervisors are already stretched to capacity (Demaestri and Ferro 2013) in their mainstream banking sectors (BoG 2013).

3.13.6 Non-prudential regulation for MFIs

"Non-prudential" regulation, referred to as "conduct of business" regulation (CGAP 2011; Turner 2012; Khalily *et al.* 2014: 6), does not involve monitoring or assessing the financial health of the regulated institution. According to Rahman and Luo (2012), non-prudential regulation, referred to as 'relaxed regulation', is appropriate for MFIs. In the authors' view, non-prudential regulation provides guidelines as to how the institution must conduct itself (Turner 2012) to build reputation and corporate image. Non-prudential regulation seeks to promote good behaviour in the system, by requiring consumer protection, information disclosure, and fair business practices (Turner 2012; Rahman and Luo 2012).

A non-prudential regulation of MF, according to CGAP (2011), tends to focus on three main types of objectives:

(i) protecting consumers of financial services;

(ii) enabling a range of institutions that provide a mix of appropriate products and services; and

(iii) providing governments with information to carry out economic, financial, and criminal enforcement policy (CGAP 2011; Founanou and Ratsimalahelo 2016).

Again, non-prudential rules screen out unsuitable owners/managers (Turner 2012) or require transparent reporting and disclosure (Rahman and Luo 2012; Founanou and Ratsimalahelo 2016) and tend to be easier to administer because government authorities do not have to take responsibility for the financial soundness (Founanou and Ratsimalahelo 2016) of the organisation.

Khalily *et al.* (2014: 6) are of the view that non-prudential rules allow MFIs to evolve within a structure of regulatory requirements and guidelines and to operate sustainably with a higher degree of efficiency. Linking his argument to financial regulation, Turner (2012) explains that soft law generally refers to non-legislative methods of problem-solving, which are typically carried out by transnational networks of domestic financial regulators (BoG, SEC, MoFEP and Apex bodies, in Ghana's case). The author further espouses recommendations, memoranda of understanding, and guidelines such as banking guidelines regulating MFIs in Ghana (BoG 2011, 2012 and 2013), as contents of such soft regulation.

There are policy challenges for smooth development of the sector. According to Rahman and Luo (2012) regulating the MF sector prudentially failed in Ghana, Indonesia and the Philippines. They further state that soft regulation is supported by Mexico, Zambia, China, Bangladesh, Cambodia and Uganda, and it has worked well.

In Turner's (2012) view, the success is achieved because such regulation establishes expectations of acceptable conduct and controlling practice. This was possible because these countries set up separate regulatory bodies (newly created authority/networks and empowered and delegated powers of regulation/ supervision to them) such as the Microcredit Regulatory Authority of Bangladesh, Nigeria Microbank Authority, China Banking Regulatory Commission in China (Rahman and Luo 2012) and the MF Regulatory Council in South Africa.

This divorces and relieves the central banks, which have hitherto carried the dual (supervisory and regulatory) role of regulating conventional banks and the MF sector (Rahman and Luo 2012). Sadly, this is still the case in Ghana; which is yet to institute a separate body to, somehow, regulate the MF sector.

Turner (2012) concludes that soft law (non-prudential in the context of financial regulation) works because, as with all law, it establishes expectations of acceptable conduct and controlling practice. The author indicates that even though these regulations are informal prescriptions they are, however, authoritatively shaped expectations of appropriate conduct, by governing elites (Turner 2012), and can control outcomes. This explains the idea of devolving or crafting a new regulation from existing banking laws, based on the specific industry characteristics of the MF sector (CGAP 2011; Economist Intelligence Unit 2012; Katwaroo-Ragbir 2013).

3.13.7 Promotional regulation for MFIs

Regardless of its objective, regulation should, where possible, aim to be institution-neutral, both to create a level playing field that fosters competition and to reduce the risk of regulatory arbitrage (CGAP 2011 and Christen *et al.* 2011). Such relaxation of the prudential regulation prompted two windows, created to promote MF: the tier system (BoG 2011), as well as the creation of the NBFI Act, to regulate the non-conventional, financial institutions in the country (Christen *et al.* 2011; Aveh et al. 2013a: 18).

Promotional regulation simply enables or facilitates basic lending processes. In Ghana, reforms were made to the legal authority for non-bank entities (NBFI Act) to engage in lending (Boateng 2015: 53). Similarly, prudential norms were to be relaxed to facilitate licensing of deposit-taking MFIs (BoG 2011). This regulatory change made investment in MF more appealing, hence, the ever-increasing numbers of institutions engaging in MF (Rahman and Luo 2012; Turner 2012).

3.13.8 Function, integrated and ‘twin peak’ regulations

Accordingly, Rahman and Luo (2012) quoted Staschen’s 2003 conjecture that MF regulation can be viewed in three perspectives of political, regulatory and institutional. Should MF be regulated as a set of products and activities or according to institutional form of the service provider? The approach depends on the regulatory issue being addressed, as well as the country's general approach to financial sector regulation and supervision (CGAP 2011; Rahman and Luo 2012; Turner 2012: 553).

Christen *et al.* (2011) identify 'functional', 'unified/integrated', and 'twin peaks', as three possible approaches. The authors establish that a function approach, where supervision is determined by activity, and a unified or integrated approach, would work best as a combination of prudential and non-prudential regulation (Arun and Kamath 2015; Rahman and Luo 2012; Turner 2012) and supervision (Christen *et al.* 2011).

Contrary to the unified approach, Christen *et al.* (2011) explain that twin peaks, similar to BASEL II, determine separate "pillars" for prudential and non-prudential regulation and supervision. In many countries that use a unified or twin-peaks approach, non-depository institutions fall outside (Arun and Kamath 2015; Rahman and Luo 2012) the supervisory regime (BoG 2013; BASEL II 2010; CGAP 2011). The NBFI Act of Ghana, the Banking Law and BoG guidelines, as well as GHAMP, recognise that different types of financial institutions deserve different regulatory approaches.

The functional approach, however, regulates market participants according to the economic function they perform, regardless of their institutional structure (Christen *et al.* 2011; CGAP 2011). The functional approach or window is emphasised in the BoG (2013) banking guidelines, as this tends to create tiers and prescribes minimum capital caps for the various categories of MFIs in Ghana. This complies with BASEL II (2010), which demands that some *prudential* rules depend on institutional type (CGAP 2011; Arun and Kamath 2015; Rahman and Luo 2012). For instance, different kinds of institutions may call for different rules pertaining to permitted activities or capital adequacy (BASEL 2007 and Christen *et al.* 2011); which conforms to pillar one of the BASEL requirements.

Thus, MF is seen as a financial activity, rather than a specific institutional type (Santos 2012: 338). Seeing MF through this window means some restrictions to other, commercialised, financial institutions, especially the formal banks, to venturing into MF operations (Christen *et al.* 2011). Perhaps, this may curtail the competition and engagement in unlicensed activities.

Ghana created a regulatory window to encourage local investment, in order to boost MF services to the poor (BoG Guideline 2011). The same is found with China, Bolivia, Peru and many others (Rahman and Luo 2012: 1019-1033). However, according to Christen *et al.* (2011), many countries fail to realise the intended objective. The authors assert that policy makers may see the new window as a means of attracting investment in start-up, depository MFIs, more than as a path for transforming NGO MFIs (Christen *et al.* 2011). Here again, it is not recognised who the likely takers will be.

Should local start-ups be expected, there are several factors worth considering:

- "Has the profitability of MF, or at least microcredit, been demonstrated in the country yet? Otherwise it may be hard to interest entrepreneurs and investors";
- "Does the country have experienced microcredit managers who can teach new staff how to make and, collect microloans?"; and
- "How entrepreneurial is the country's private sector?"

(CGAP 2011).

The regulatory window that would draw dozens (or hundreds) of entrants in one country, according to CGAP (2011), might draw relatively little interest in another country with a less entrepreneurial culture.

In South Africa, there is a clear focus on performance monitoring, rather than prudential regulation, as one would expect from a regulatory framework for non-deposit-taking institutions (Rahman and Luo 2012). The most important condition is registration with a regulatory institution approved by the Minister of Trade and Industry. The only such institution existing to date is the MFRC, a ‘hybrid institution’, as its board members stem from the MF and banking industry and from public institutions, such as the central bank, the Department of Trade and Industry and state-owned, wholesale, financial institutions (MFRC 1999; CGAP 2007).

The South African institutional infrastructure, as with the MRA in Bangladesh, thus ensures effective implementation of the relevant policies for sound operation of MFIs. This is a model worth emulating, as it seeks to eliminate political influence from the activities of the MFIs (Arunachalam 2011); also, it represents a strong board composition, due to the presence of external nominees (Arunachalam 2011; Franke *et al.* 2011 and Marr and Tubaro 2011).

Literature cites India, China, Peru, Indonesia, Bolivia and even Nigeria, as countries that demonstrate regulatory regimes for MFIs, through the establishment of separate bodies (Rahman and Luo 2012). South Africa has a very strong, non-prudential, regulatory framework (MFRC 1999). Although the MFRC regulates only non-deposit-taking MFIs, it does have the right to inspect lenders, with or without previous notice, for compliance (Rahman and Luo 2012) and decency in operation. Furthermore, the registration criteria include fit and proper standards for participants in the industry, such as those directors should not have criminal records involving dishonesty. On-site inspections are rare under a non-prudential regulatory regime, with MFIs therefore, expected to adopt best practice strategies (Turner 2012).

MFIs in Ghana are simply issued an operating certificate by the national bank (BoG 2011), as elsewhere in the world, with MFIs not prudentially regulated (Boateng and Boateng 2014; Boateng 2015; Rahman and Luo 2012: 1019-1033). Advantage is therefore taken by the MFIs, of the freewill and unspecific nature of the MF operating guidelines. The tier system, as practised in other countries, categorises the sector into deposit accepting and non-deposit accepting, as well as money lending groups (BoG 2011).

While credit-only MFIs are not subjected to prudential regulation, a credible regulatory framework or guideline has been devised for deposit-taking MFIs (BoG 2011). A potential danger is that the subjection of all types of MFIs to the same law might lead to confusion or even to blurring of the delineation of these very different types of institutions, and thus create regulatory ambiguity (May 2013; May 2014; Cairney 2012; Hallsworth and Rutter 2011: 18).

This ambiguity (Cairney 2012: 9; Hallsworth and Rutter 2011: 18) actually promotes cross-tier operations and hence, the rule-breaking label for MFIs (Ogbulu *et al.* 2015: 80; Cieslik *et al.* 2015 and Guérin *et al.* 2012). Ethiopia might be mentioned here, as a fourth example of government regulation of credit-only MFIs (Rahman and Luo 2012).

Tiering in the MF sector has been difficult to explain, due to the multi-dimensional nature of the MFIs. According to CGAP (2011), defining a regulatory window distinct from other legal frameworks, is a multi-dimensional undertaking. The ‘line-drawing’ or, as it is also called, the definition of tiers, is one of the most delicate issues in setting up a regulatory system for MF. Inferring from the CGAP (2011) position, several criteria can be used to draw the line between prudential and non-prudential regulation. The CGAP paper concludes that any regulation should consider its appropriateness to the specific country environment (CGAP 2011). Available literature indicates that no country uses a single measure to delineate tiers because MF regulation differs in a number of ways, from traditional banking regulation, just as MF differs from other financial services (Rahman and Luo 20128; Khalily *et al.* 2014: 8; CGAP 2011; Santos 2012: 338; Guérin *et al.* 20128).

At least in theory, these differences in regulatory requirements for MF (CGAP 2011) should make it unattractive for other kinds of institutions to use the regulatory window, which is solely reserved for MFIs. The clear definition of MF-specific provisions, which renders the regulatory framework unattractive for other types of financial institutions, leads MFIs to filter themselves into the most appropriate regulatory window; hence, the tier system (CGAP 2011).

3.13.9 Regulation for MF: prudential or non-prudential

No country has defined prudential regulations for MF, irrespective of the type of institution that conducts MF business (CGAP 2011). The multifaceted nature of MF products and the ever-continuous evolvement (Santos 2012: 337, 339) of the sub-sector all contribute to the difficulty of defining specific regulatory guidelines for MFIs.

Beyond the debate on prudential and non-prudential regulations, studies suggest the introduction of the terms *institutional* and *functional* regulation. This approach is called institutional regulation. This view is appropriate, since it focuses on institutions (May 2014; Smith and Katikireddi 2012; Little 2012: 1-19) because, after all, it is institutions and not functions that become insolvent (May 2014).

In Ghana, the traditional banks are also observed to be engaging in varied forms of MF activities (Addae-Korankye 2012: 138; Boateng 2015; Aveh et al. 2013a). It is therefore, appropriate to look at MFIs as a distinct, institutional type, even though the institutions themselves might operate under a different name (Rahman and Luo 2012; Khalily *et al.* 2014; CGAP 2011).

Ghana’s delineation of tiers follows neither the institutional, nor the functional approach. Although the law distinguishes between a number of institutional types (BoG 2011), some to whom the central bank has issued exclusive operating guidelines, the main categorisation is functional, that is, between deposit-taking and non-deposit-taking NBFIs (BoG 2011). Nonetheless, this overlapping of functional and institutional regulation gives rise to a number of problems.

The rules for deposit-taking NBFIs introduce another term, namely savings institutions, for all those NBFIs mobilising retail savings from the public or from members; the same rules are, however, not applicable to all savings institutions, only to savings and loan companies and building societies (as credit unions are excluded). This introduces ambiguity and intense conflict in the regulatory regime (Nilsen *et al.* 2013). The central bank issues three types of licenses, of which Type I is the license for savings institutions.

This is rather confusing, as one would expect the central bank to issue licenses according to institutional type; for example, a license as a savings and loan company; an act that is consistent with complexity theory (Cairney 2012). To complicate matters further (May 2013; Cairney 2012: 7), the rules for non-deposit-taking NBFIs can also be applied to any other NBFI specifically authorised to take public deposits. Furthermore, some sections of these rules apply to all "institutions in credit business (ICBs)" – another term, which is not further specified – regardless of whether they are deposit taking or not. As there is a second set of rules for non-deposit-taking NBFIs, it is not quite clear why these sections have been included under the rules for deposit-taking NBFIs (NBFI Act 1993).

In summary, the proliferation of different terms and the overlapping applicability of different rules under the same law, make the legal framework for MFIs appear rather complex (Cairney 2012; May 2013; Nilsen 2015; Nilsen *et al.* 2013). The main reason for this might be the attempt to combine elements of functional regulation, with the existing distinction between different institutional types (Stefan 2003; BoG 2013), when, in effect, it makes implementation cumbersome for the MFIs.

3.13.10 Regulation implementation modes for MF

Regulators apply a risk management approach to regulate and supervise the financial institutions, such as banks, which capital and operational models differ from MFIs. Hence, regulators should adjust their policies so that risk management practices fit the MFIs (Magali 2014; Wilkinson and Frost 2015; May 2013; Geyer 2012). Ali (2015a: 125) posits that MFIs must be able to enter the arena of a licensed and prudentially supervised financial intermediation, while at the same time, regulations must be crafted in such a way that permits effective and efficient development (Turner 2012; Rahman and Luo 2012) of MFIs.

Due to differences in country jurisdiction (CGAP 2011), prudential instruments equally differ, though largely through compliance measures, adapted (Turner 2012) from the Basel requirements. Therefore, there is a variation on the type and scope of government regulation for depository financial intermediaries. The two frequently adopted instruments of regulation are preventive and protective regulation (Ali 2015a: 126).

Protective regulation, on the one hand, is a post-crisis measure (Ali 2015a: 126), taken by external regulators to avoid a run-on deposits, by assuring depositors they will be the first to withdraw the funds from the financial intermediaries. Protective regulatory instruments include government as a lender of last resort, deposit insurance, bank bailouts and the formalised process of financial intermediaries' restructuring and reform (May 2014; Cairney 2012; Smith and Katikireddi 2012). This may be applicable to government supported MFIs but since the issue of commercialisation is being heralded, it will be highly questionable to apply protective regulation; adaptation is possible though (Turner 2012; Magali 2014; Wilkinson and Frost 2015; May 2013; Geyer 2012).

On the other hand, according to Ali (2015a: 126), preventive regulation is a pre-crisis measure, taken by external supervisors, in order to reduce the probability of the financial institutions' failure. Thus, it tries to control the risk exposure of the financial system, with external supervisors making use of entry and ongoing requirements, as instruments of preventive regulation. Ali (2015a: 126) further indicates that entry requirements ensure only financially healthy institutions join the marketplace (Turner 2012).

Entry requirements are usually based on minimum capital requirements, ownership criteria, feasibility studies, and capital to asset ratio, as well as more of the Basel requirements (Basel 2012). These are more prudential specifications (Khalily *et al.* 2014: 25).

This type of regulation is one of the most powerful actions taken by external regulators (Ali 2015a: 125, Turner 2012; Founanou and Ratsimalahelo 2016). Preventive regulation might be the most difficult to apply in the Ghanaian MF sector and hence, Ghana's MF sector is characterised by a less-regulated sub-sector, subject to a different jurisdiction (BoG 2013).

The regulations, whether preventive or protective, need an effective enforcement framework, called prudential supervision. Prudential supervision refers to the process of enforcing the regulatory framework. It is an external oversight of the financial institution (Ali 2015a: 127), by examining and monitoring mechanisms to verify compliance with the approved regulations.

Through effective supervision, financial institutions are monitored and directed to comply with the regulatory requirements (Rivera-Santos *et al.* 2012). Therefore, the availability of a set of enforceable, binding rules, called prudential regulation or prudential supervision that governs the conduct (Turner 2012) of MF providers, is essential. As explained by Ali (2015a: 126); Turner (2012) and other authors, the purpose of prudential regulation is to ensure the financial soundness of financial intermediaries, such as banks, MFIs, and other financial intermediaries, and to prevent financial system instability.

The selection of regulatory instruments and tools for MFIs is not much different from that of traditional financial institutions. Legal provisions usually legislate for entry into the market, smooth operation and an orderly exit, either voluntarily or by order of the regulatory authority (BoG 2013). Yet, even when the instruments are the same, the specifications for MFIs are different. The best-known example of this is the capital requirement for MFIs (BoG 2011; 2013); which is generally much lower than for commercial banks.

The identified parameters comprise CAR (capital); non-performing loans to total loans (assets); a subjective assessment of management quality, based on the last on-site inspection; as well as the ratio of expenses to earnings (earnings); and at the ratio of liquid assets to current liabilities (liquidity) (Basel II 2010). In Ghana, the capital adequacy is six percent for Rural Banks and 10 percent for deposit-taking NBFIs (Microfinancegateway 2011); this varies from BASEL II (2010) requirements of eight percent and core capital of four percent,

On-site inspections of MFIs do not take place and MFIs are subject to only minimal reporting requirements. The main provisions of the laws are the restrictions on permissible activities (BoG 2011) and the prohibition of distributing profits. In summary, only banks are prudentially regulated in SSA countries, while MFIs must comply with limited reporting requirements and some restrictions on their business activities (CGAP 2011).

Table 3.4 explains the institutional structures and regulatory practices in the banking and non-bank financial sub-categories of the financial sector in Ghana.

TABLE 3.5: GHANA – MFIs AND REGULATORY FRAMEWORK

Type of MFI Fund	Ownership	Legal Basis	Organised as	Fund Source	Legal Activities	Jurisdiction	Supervision	Target Market
Comm'l Banks in Microfinance	Private / State	Companies Act; Banking Law	Limited Liability Company	Equity capital, comm'l loans, deposits	Full-service bank	Bank of Ghana	Bank of Ghana	Individuals, Comm'l enterprises
Agric. Devt. Bank	State-owned	Companies Act; Banking Law	Limited Liability Company	Equity capital, comm'l loans, deposits	Full-service bank	Bank of Ghana	Bank of Ghana; RFID	Individuals, Comm'l enterprises
ARB Apex Bank	Rural Banks; Bank of Ghana	Companies Act; Banking Law	Limited Liability Company	Gov't & Int'l grants & loans	Apex bank functions under NBFI License	Bank of Ghana	Bank of Ghana; RFID	Rural Banks
Rural banks	Community owned; BOG has preferred shares	Companies Act; Banking Law	Limited Liability Company; Unit Bank	Gov't loans, deposits	Savings deposits and micro-loans	Bank of Ghana	Bank of Ghana; RFID	Individuals & businesses in service area
Ghamfin	Individuals and organisations	Law on Trusts and Charitable Institutions	Company limited by Guarantee (Not-for-profit)	Grants & donations	Umbrella body of informal and formal MFIs; Training resources	**none**	**none**	NGOs, MFIs, S&Ls, Cust, Gov't. Agencies
Savings and loan companies	Private parties	Companies Act; NBFI Law	Limited Liability Company	Equity capital; grants; loans, deposits	Savings deposits and micro-loans; hire purchase financing	NBFI / BOG	NBFI / BOG	Individuals; small business, Susu collectors
Ghana Credit Union Association	Primary-level credit unions	Law on cooperatives; NBFI	Cooperative Society	Member Unions' capital contributions; loans; grants; deposits	Wholesale loans /deposits; CFF; CUPEARLS, training, monitoring, assessment	Registrar; NBFI/BOG	Registrar; NBFI/BOG	Credit Unions
Credit Unions	Individuals and organisations	Law on cooperatives; NBFI	Cooperative Society	Members' share capital & deposits	Members only savings deposits and microloans	Registrar; CU Supervision Board; CUA; NBFI/BOG	Ghana CUA; NBFI/BOG	Individual members
NGOs	Private parties	Law on Trusts and Charitable institutions	Company limited by Guarantee	Grants & donations	Micro-loans; Nonfinancial services	Ghamfin	None	Individuals; Groups

			(Not for-profit)					
National Assn of Susus Collectors	Individual Susu Collectors	Law on cooperatives	Cooperative Society	Members' share capital contributions	Taking deposits; loans to susu collectors	None	None	Susu Collectors
Individual Susus Collectors	Individual Susu Collectors	None	None	Clients' fees	Collecting & safekeeping of clients' savings	None	None	Market vendors; Self-employed

Note: Adapted from '*A framework for regulating MFIs - the experience in Ghana and the Philippines'.*

3.14 Ghana's operating guidelines for MFIs

The main tool here, is the Bank of Ghana's notice to the banks and the general public that sets out the requirements for banking and other non-financial institutions. The document, which is constantly reviewed, states *inter alia* that registration, ownership, capital requirements, and operating levels are among the requirements (BoG 2011).

3.14.1 Regulation on product restrictions

Almost all legal frameworks for MF restrict certain characteristics of products, in one way or another (BoG 2011), thus separating the MF tiers from other tiers. The most common restrictions are limitations on the type of deposit facilities that may be offered. NBFIs in Ghana, other than savings institutions and credit unions, are only allowed to take term deposits, according to the NBFI Act of 1993. Other countries permit deposit-taking by cooperative institutions from members only, such as cooperatives with a limited banking transaction license in Nepal and credit unions in Ghana (BoG 2011).

3.14.2 Regulation on capital requirement for MFIs

To ration prudential regulation and minimum capital for MFIs in Ghana, the BoG (2013) recognised that it is prudent that the minimum capital should, in principle at least, be set high enough to ensure the institution can cover the infrastructure, management information system (MIS), and start-up losses, to reach a viable scale. In addition, the BoG identified setting minimum capital through regulation, rather than legislation; hence the banking guidelines were issued (BoG 2013). According to Christen *et al.* (2011) and CGAP (2011), this makes it easier for supervisors who are new to MF, to start with a manageable number of new licensees, reserving the option of reducing minimum capital and licensing more institutions as experience is gained.

3.14.3 Regulation on reserves for MFIs

Ghana MFIs are to build reserves of between 15 and 50 percent from net profits (BoG 2013). Some countries require their MFIs to deposit reserves into an account with the central bank; notably MF banks in Pakistan must maintain a cash reserve of at least five percent of time and demand deposits, in an account with the State Bank of Pakistan (CGAP 2011). Such a reserve requirement is a familiar instrument of monetary policy.

As MFIs are small, in comparison to traditional banks, with a reserve requirement of 10 percent, according to the Banking Law and BASEL II, a reserve requirement for MFIs is of minor importance, for stabilising money market interest rates. When these funds are not earning any interest, such a provision again reduces the profitability of MFIs (CGAP 2011); a dual objective. However, the current window of MFIs becoming private and individually owned businesses (BoG 2013), which is driving the whole concept towards commercialisation, negates the previously held, dual mission of MFIs.

3.14.4 Tiers system application in Ghana

The case of Ghana illustrates how difficult it can be to clearly separate regulatory tiers (BoG 2011). Ghana does not offer a legal window for MFIs per se, but rather defines a number of institutional types (BoG 2011), which could potentially provide MF services. Many rural banks could be regarded as MFIs because they offer MF products (Boateng and Boateng 2014; Addae-Korankye 2012: 139; Owusu *et al.* 2015) and are subject to the same law as all other banks, viz the Banking Law 1989 revised in 2004. The main difference between rural and commercial banks is the much lower capital requirement. It is therefore the licensing practices of the BoG that prevent traditional banks from taking advantage of the lower capital requirements for rural banks. Rural banks are supposed to be concentrated in the local area in which they operate, a criterion that the central bank monitors carefully, when issuing licenses (Aveh et al. 2013b).

The category of deposit-taking NBFIs is further broken down into savings and loan companies, building societies and credit unions. For both deposit-taking and non-deposit-taking NBFIs, the BoG has published a separate set of rules. For this study, the NBFI Rules for deposit-taking NBFIs are most relevant; they are not applicable to credit unions, which do not have any special regulations directing their activities.

Judging from the various literal assertions and positions on regulation, it became particularly difficult for regulators, due to the complex nature (Santos 2012) and ever-evolving products of MFIs. CGAP (2011) posits that the ability of regulators to craft appropriate regulation and to supervise effectively depends on their understanding of the particular characteristics of MF, including the clients, the products and services, and the institutions providing them.

The central question posed in regulating MF concerns how to approach regulation and supervision of the financial system, as a whole, in a way that balances financial access, financial stability, financial integrity, and consumer protection (Christen *et al.* 2011). Sometimes, regulation by activity (instead of by institutional type) makes good sense as a matter of principle, but is not feasible as a matter of political economy (Turner 2012). For example, it may not be easy to have regulation adopted that puts start-up market entrants on a level playing field, with established market incumbents (Christen *et al.* 2011).

3.15 Regulatory challenges for MF in Ghana

Another serious challenge is the restrictive regulatory and supervisory guidelines for any MFI to convert fully into a MF bank. According to Onoyere (2014), the non-review of the provisions of the regulatory policies by the mandated authorities negatively impacts the effective and efficient performance of MFIs. Regulations are not clear (May 2013) and the fact that regular review, to ensure MFI activities fit in, tends to make the application of guidelines for monitoring quite cumbersome to the regulator (BoG 2015; Onoyere 2014; Franke *et al.* 2011).

A recent announcement confirms that there are more than 435 fully licensed MFIs in Ghana today, according to Raymond Amanfu, head of the BoG's Other Financial Institutions Supervisory Department (OFISD), this department is charged with supervision and monitoring of banks other than conventional financial institutions (Microcapital 2013), which are regulated and supervised by the BoG. The bank also has the responsibility of supervising universal banks, non-bank financial institutions, primary mortgage institutions and forex bureaus.

Gathered from this statement, it is evident that the BoG has an onerous task to supervise and monitor the activities of this widely dispersed, financial sub-sector. The BoG is found to lack the in-house capacity (Ayeh 2012: 48; GHAMP 2008; BoG 2007; Boateng 2015) to ensure appropriate and thorough control over the activities of MFIs in Ghana.

The multiplicity of the institutions and their diverse nature poses a regulatory challenge. This pronouncement attests to the earlier assertions of Boateng (2015), Onoyere (2014), Haileselasie *et al.* (2014: 21) and Ali (2015a: 127), against the backdrop of universal banks and MFIs differing in operational methodology and scope (Boateng and Boateng 2014 and Onoyere 2014). A regulator that is trained to inspect/supervise the activities of one may thus be handicapped in the supervision of another.

3.16 Monitoring of the MFIs in Ghana

The financial sector reporting rules and guidelines establish the reporting and supervision requirements for MFIs (BoG 2011). The guidelines, set out in the Operating Rules and Guidelines, specifically outline the requirements for tiers 2, 3 and 4 institutions, which serves as the domain for all the MFIs operating in the country. While tier 1 institutions have a predefined set of reporting rules, the MF sub-sector does not have any outlined supervisory requirements (MFTransparency 2011) The reporting rules range from monthly, quarterly, semi-annually and annual reports, on a variety of financial and non-financial indicators, in addition to annual returns and subsequent electronic submission, as well as electronic Financial Analysis and Surveillance System (e-FASS). The sector also lacks on-site inspection, as extended to RCBs (MFTransparency 2011).

While the Bank of Ghana's prudential regulations cover the commercial banks extensively, MF portfolios are not monitored thoroughly (Boateng 2015; MFTransparency 2011). Several apex structures at different levels have, therefore, been established to delegate some of the supervisory and monitoring functions of the BoG (Boateng 2015). The apex structure involved serves as the umbrella body for categories of financial service providers.

3.16.1 Ghana Association of Microfinance Companies (GAMC)

The GAMC, as an apex institution of MFIs in Ghana, was registered on 20 May 2011, as a company limited by guarantee. Thus, in the same year Ghana formally instituted regulation and operational guidelines for MF operations (BoG 2011), a distinct body was formed solely for institutions registered as MF providers. According to Microcapital (2016), the GAMC had 560 members as at 2014. This number hence rose to 661 as at May 2016. The association (GAMC), through France's Development Agency (AFD) in March 2016 launched its Microfinance Companies Capacity Improvement Project (MICCIP); five years since its inception (AFD 2016). This explains the lack of capacity building for member MFIs over the years, which will have a direct impact of the performance on the sector.

The core mission of the GAMC, which remains similar to that of other MF apex bodies across Africa and the rest of the world, includes:

> *"To introduce credibility and sanity into the operations of tier 2 microfinance companies through self-regulation that will enable*

our members gain recognition from the public, regulatory bodies as well as other stakeholders in Ghana" (www.gamcapex.org).

Emanating from the mission, the preceding paragraph, highlights that:

1. The MF sector is short of credibility;
2. Ghana adopts a self-regulation option for its MF sector, hence the need for an apex institution, as in other countries, for instance Zimbabwe (AMI), Zambia (AMIZ), Uganda, Sudan, India, and Peru, among others; and
3. Stakeholder participation in MFIs is low.

3.16.2 ARB Apex Bank

The rural banking concept is classified as part of the neo-liberalisation era, according to this study, and was started in 1976, with the main purpose of financial support and access to rural and cottage industries in Ghana (UNDP Ghana 2012; Aveh *et al.* 2013a). The growth and spread of these banks prompted formation of the Association of Rural Banks (ARB), which was founded in 1981 as an NGO, with the intention of strengthening and promoting the concept of rural banking and to promote training seminars and advocacy (www.mofep.gov.gh).

This growth and spread of RCBs quickly called for extra diligence in monitoring. This call was answered by establishing the Association of Rural Banks (ARB Apex) in 2001, to serve as a network for all RCBs and to provide monitoring and supervision, as well as to perform functions, such as check clearing, treasury management, product development and training (BoG 2012).

3.16.3 Ghana Co-operative Credit Unions Association (GCCUA)

Established in 1968, as an apex body of the cooperative credit unions, the Ghana Co-operative Credit Unions Association (CUA) Limited regulates and supervises credit unions in the country, on behalf of the BoG. The CUA also provides financial and technical assistance to its members, including services, such as education and training, auditing, bookkeeping, and computer related services, along with general supervision and risk management insurance, as well as data management (Aveh *et al.* 2013b). This is to enhance their operations and facilitate the monitoring role of the BoG.

There is a requirement for credit unions to deposit a percentage of their funds in statutory reserves and deposit guarantee schemes with the CUA. This measure is undertaken to ensure that the CUA has adequate capacity to provide funds to those credit unions in times of financial need (MF*Transparency* 2011).

3.16.4 Ghana Co-operative Susu Collectors' Association (GCSCA)

The Ghana Co-operative Susu Collectors' Association (GCSCA), set up in the early days of financial liberalisation in 1994, is an umbrella organisation for all regional Susu collector co-operative societies in Ghana. GCSCA monitors and assists its members through capacity building and training measures. The members of the association serve a diverse market of clients and provide services to approximately 60 percent (Boateng 2015) of the population in Ghana; with support from banks and other financial institutions.

3.16.5 Association of Financial NGOs (ASSFIN)

According to MF*Transparency* (2011), the Association of Financial NGOs was established in 2005, as the apex and regulatory body of FNGOs. ASSFIN aims to set up performance indicators, in order to enable member institutions to monitor their performance and align themselves with international best practices. This is purported to promote regulatory compliance with various policies by the BoG, to ensure a sound and secure financial sector.

3.17 Requirements for monitoring MFIs in Ghana

The BoG guidelines (BoG 2011; 2013) on MFIs in Ghana require every MFI in Ghana to have an internal audit department, which should ensure that the operations of the institution conform to the law, as well as to its internal rules and regulations; a mandatory requirement for licensing an MFI in Ghana. It is also compulsorily required that every fraud or attempted fraud should be reported to the BoG. It would, however, appear that the internal audit function in MFIs in Ghana leaves much to be desired (Arunachalam 2011 and Franke *et al.* 2011).

The internal audit function seems to, however, lack competent and well-motivated staff (Ayeh 2012; Boateng 2015; Haileselasie *et al.* 2014: 22) because of poor remuneration in this sub-sector of the financial industry. It would also appear that the internal audit staff of MFIs in Ghana does not have unfettered freedom and independence to do their work (Mbugua and Makori 2014; Aveh et al. 2013b).

The BoG requires that each MFI should appoint an auditor approved by the bank, to make a report to the shareholders on the annual financial statements of the institution, with every such report to contain true and fair statements and such other information as may be prescribed, from time to time by the BoG and its directives/rules (BoG 2014). Additionally, the approved auditor shall also forward to the BoG two copies of a domestic report on the activities of the MFIs, not later than three months after the end of year of such MFIs (BoG requirement for licensing: Annexure 2014).

3.18 MFIs monitoring challenges in Ghana

The GHAMP finds that reporting systems and the dissemination of national, institutional and clientele data are inadequate and weak, within and between institutions. According to Ayeh (2012: 49), the fiercely competitive nature of these MFIs makes them unwilling to provide data and information on their clients and operations to their APEX body, GHAMFIN. This, while all MFIs are required to register with this institution, which serves as a common front to all activities engaged in by the MFIs in Ghana, so as to enable it to create a credit bureau, for fear that a competitor may use such information for its counter benefit. This is a clear issue of data compromise, of which the GHAMFIN is suspect.

The difficulty in accessing data from the government-sponsored MF scheme (MASLOC) was also due to the perception that successful applicants are members of the political party in power (BoG 2015). These challenges pose a threat to effective supervision and monitoring of MFIs in Ghana; especially in Accra.

3.19 MFIs reporting in Ghana

The BoG, however, sets financial performance and reporting criteria for all registered MF operators (BoG 2015). This guideline calls for, among other requirements, financial statements from the MFIs (at a minimum, income statement, balance sheet, and portfolio report) for the two most recent reporting periods. It also requests a Business Plan (strategic and/or operating plan); an annual budget and a report on actual expenditures to date; an activity report for two most recent periods, including the number of actual clients, employees, branches, and other relevant information; and a calculator (BoG 2015). This, according to Warue (2012: 32), enforces internal monitoring and control, which is the driver to curtailing loan delinquency.

Warue (2012) indicates that MoFEP, representing the GoG, helps to ensure compliance with policy guidelines, monitors and annually reports on implementation of this policy and strategy to stakeholders, through the MF Forum. The guidelines also insist on a MF Conference at the end of every three years, purposely to review the policy (BoG 2015).

3.20 Supervision of the MFIs in Ghana

The management of MFIs lacks adequate oversight and accountability and has failed to develop a strong control culture, with which to maintain a high level of control consciousness (Arunachalam 2011 and Franke *et al.* 2011). MFIs have a weak Management Information System (MIS), accounting system, and inadequate internal control, as well as high employee turnover. Loan officers are entitled to handle high amounts of cash, which lead to fraud and misappropriation.

With all of these weaknesses, Arunachalam (2011) states that MFIs are neither in a position to hold the rapid growth being experienced nor do they have the capacity to do so. Furthermore, the quest for growth through branching out and the extension of services, results in cross-tier activities (Arunachalam 2011) that rather complicate the identification of reporting requirements of each category of MFIs, and reporting thereof.

In addition, the effective mechanisms of financial institutions' supervision comprise off-site and on-site supervision (Ali 2015a: 126). The off-site supervision is an early warning system, based on the analysis of the data reported to the supervisory authority (Ali 2015). On-site supervision, such as ACCION International and the World Council of Credit Unions' capital adequacy, asset quality, management quality, earning and liquidity (CAMEL) and protection, effective financial structure, asset quality, rates of return and cost, yield, liquidity and signs of growth (PEARLS) MFI supervisory programmes (Microfinancegateway 2011), involves actual visits to the MFIs to verify that their data, fed to the off-site system, are accurate (Ali 2015a). However, recent developments indicate that central banks are moving towards introducing a risk-based supervision approach (Ali 2015b).

The main sources of MFIs' data are external and internal auditors (Ali 2015a: 126). This data is reportedly not available to the apex bodies (BoG 2015). Unfortunately, in spite of the obvious roles that MFIs have been playing in the Ghanaian economy, particularly over the last 20 years, there is a pervasive lack of data on their operations (BoG 2007). Coupled with a fragmented oversight, which now calls for better coordination and collaboration among key stakeholders, including development partners, government and other agencies, improvement in this area could help to better integrate MF with the development of the overall financial sector.

Other splinter groups include the GHAMFIN, purported to be the overarching coordinator of the apex activities; an umbrella body for registering all MFIs (Boateng 2015). The split structures therefore defy coherence and hence, divergence in policy implementation, since there is no overarching monitoring body that roofs the apex structures, ensuring consistency in the regulator's policies (Boateng 2015). Added to this, the current MF Apex bodies lack an adequate cadre of in-house trainers and/or facilitators, as well as in-house monitoring and evaluation units, to continually and consistently measure the progress of their activities, over time (GHAMP 2008; BoG 2007; Boateng 2015).

Governments provide an enabling, legal and regulatory framework that encourages the development of a range of institutions and allows them to operate as recognised financial intermediaries, subject to simple, supervisory and reporting requirements (Haileselasie *et al.* 2014: 22). For this reason, the ARB Apex, the GHAMFIN, AsFin, and the GCCUA, are all institutions given the window of supervision, to ensure ethical business practices in their member institutions and to promote capacity building (BoG 2011). Haileselasie *et al.* (2014: 21) intimate that monitoring and control of operating activities are the bases for ethical growth and sustainability of MFIs. The absence of these will result in unruly behaviour and a subsequent implementation bottleneck.

The guidelines issued by central banks have to be followed for day-to-day functioning (Haileselasie *et al.* 2014: 25) of the MFIs. However, the engagement of apex bodies, though purported to reduce the burden of supervision and control of the central bank, exacerbate the supervision instead because of role conflict (Boateng 2015) and due to the fine line that defines the various tier levels, as described by operating guidelines issued by the BoG (BoG 2011). For this reason, in order to determine how rigorous the MFIs are supervised, it is imperative to ask the questions in Table 3.6.

Table 3.6: MF supervisory criteria

Criteria	Relevant question
Regulation	Are the prudential standards applied to specialised banks and financial institutions in the rural finance and MF sector, consistent with and adapted to the nature and characteristics of the market clientele they service (for example, MF loans are short-term, repeating, and unsecured, with group guarantees being a widespread practice)? Or are the prudential standards used the same as those that apply to regular commercial banks?
Supervision	Does the central bank or supervisory authority have rural finance- or MF-dedicated staff members assigned to the supervision and examination of the specialised banks and financial institutions in the rural finance and MF sector?
Strength of staff	What is the comparative workload (number of licensed institutions, or number of days needed to complete onsite examination or supervision) of supervisory staff members assigned to commercial banks, versus that of members assigned to specialised banks and financial institutions, in the rural finance and MF sector? What is the judgmental assessment of the technical capability of staff members and the quality of their examination and supervision of specialised banks and financial institutions, in the rural finance and MF sector, in comparison with technical staff members responsible for commercial banks? Is this a fair comparison?
Costs	Does the central bank or monetary authority require commercial and specialised banks and financial institutions, in the rural finance and MF sector, to pay for or to defray the costs associated with examination and supervision? If so, what charges are imposed? Is it possible to estimate and compare the costs associated with the examination and supervision of specialised banks and financial institutions, in the rural finance and MF sector, in comparison with the costs for the examination and supervision of commercial banks? Is this a fair comparison?

Source: Adapted from Rural and Microfinance Institutions: Regulatory and Supervisory Issues (2015)

In a number of countries, including Ghana, Kenya, Pakistan, the Philippines, and Tanzania, the supervisory authority has a separate, specialised MF section that deals with policy issues (including appropriate standards). The actual examination and supervision (Ali 2015b; Ayeh 2012) of all licensed banks and financial institutions are carried out by technical staff members from the banking supervision department. In other countries, including

Ghana, Indonesia, and the Philippines, RCBs are examined and supervised by staff members in the rural banking department of the supervisory authority. Again, in Ghana, the MoFEP has a supervisory and monitoring mandate on MFIs.

3.21 Information management by MFIs

The widespread availability of relevant, accurate, and comparable information (Foss and Stea 2014: 101-116) about an institution is increasingly recognised as a cornerstone in the evolution of MF. Acknowledging the importance of information management to the MF agenda, CGAP (2011) identifies improved information as very critical (Geyer 2012: 9; Little 2012: 1-19) to the sustainability of MFI's. Ensuring the availability of high quality, reliable information, on the financial and social performance of MFIs, is critical to integrating (Little 2012: 13) MF into the formal, financial sector (CGAP 2011; Aveh et al. 2013a).

Accurate information (Little 2012: 13) will raise the quality and lower the cost of supervision, audits, and ratings; encourage greater flows of commercial and private funding; and allow MF providers to ensure relevant peer review (Hallsworth and Rutter 2011) that will be beneficial to their progress and functional sustainability (GHAMFIN 2008).

Transparency opens the door for MF to become an integral part of financial systems because the participants and guardians of the financial system demand high quality information (Pritchett *et al.* 2012), to guide their informed judgments about MFIs. Having access to good information is essential for an institution to perform efficiently and effectively—the better its information, the better it can manage its resources (Aveh et al. 2013b; Hallsworth and Rutter 2011; Cairney 2012: 8). As more and more MFIs scale up their activities, managers are becoming increasingly aware of the need to improve their information systems (Bagozzi *et al.* 2013) from available data on client demand.

High quality, timely and reliable information (Foss and Stea 2014) is essential to MFI performance, growth, internal control, and portfolio quality, as well as asset and liquidity management (Aveh et al. 2013b; Bagozzi *et al.* 2013). With more, better and faster information (Foss and Stea 2014: 101-116; Song *et al.* 2015), obtained by organising and analysing the huge volumes of data collected during a client's relationship (Gong and Janssen 2012; Aliul-Rahman *et al.* 2014), MFIs will be in a stronger position to deliver products and services that customers value.

An enhanced understanding (Aliul-Rahman *et al.* 2014) of customers' evolving needs, allows MFIs to improve existing products and/or to develop new ones, adjust certain product features, alter the way in which a product is marketed (Aveh *et al.* 2013b), or improve the care and service with which the product is delivered. The efficiencies (Hallsworth and Rutter 2011; Foss and Stea 2014) gained through better information management and the redesign of products and services, frees up resources for MFIs to use elsewhere.

3.22 Communication between the regulator and the MFIs

Effective monitoring depends on reliable, accurate and relevant data (Ali 2015b: 128; BoG 2015; Arunachalam 2011). Generally, there is a lack of information on MFIs (Ali 2015b), their operations and clients in most countries, including Ghana. Approaches to and methodology for data and information gathering at national level are not uniform, due to regulatory weakness (Zahra *et al.* 2013), making it difficult to centrally monitor progress of the sub-sector. There is also a lack of a well-defined reporting system (Kinde 2012: 2), by both the government and development partners, with regards to their interventions, and hence, there is an inadequate database (Ali 2015b) for decision-making and planning.

At institutional level, data/information gathering and dissemination are weak within and between institutions (Zahra *et al.* 2013; Freeman *et al.* 2012: 3). In addition, the lack of common benchmarks, methods for measuring, and information sharing further inhibits the performance of the sub-sector (Aveh *et al.* 2013b; Boateng 2015). Thus, the deficiency of adequate and reliable information (Ali 2015b; BoG 2015; Arunachalam 2011) on outreach, in terms of its depth and breadth, remains one of the most daunting obstacles in the sub-sector. This lack of information has affected targeting of clients and ultimate poverty reduction (BoG 2007).

The traditional commercial banking approaches to MF delivery often do not work (Ali 2015b; 2015a: 128). According to traditional commercial banking principles, the credit methodology requires documentary evidence, long-standing bank-customer relationships and collateral (Boateng and Boateng 2014), which most micro and small businesses do not possess. Therefore, there is room for expanding the MF sector in Ghana (BoG 2007; GHAMP 2008) to ensure growth.

3.23 Lack of framework for classifying the MFIs – failure of the tier system

There is no appropriate framework for categorising and upgrading some of the emerging MFIs in the semi-formal and informal sub-sectors, in accordance with their operational capacities and capabilities. What is evident, is the capital requirement specified for each tier level (BoG 2011).

The objective of MF is to provide resources for the poor (CGAP 2011; Addae-Korankye 2012). Nonetheless, there is yet to be adequate, reliable and acceptable methods for classifying various poverty levels, to enhance the categorisation of potential and actual MFI clients and other forms of support that may be more appropriate for some group (BoG 2007). This deprives the MFIs of specific target markets and hence, the fierce competition (Ogbulu *et al.* 2015) that ensues among the various categories of MFIs in the financial sub-sector, promoting survival strategies (Sinclair 2012; Cieslik *et al.* 2015; Kinde 2012: 5) among participants. The result is that new entrants apparently ignore the regulations and technologies (Ogbulu *et al.* 2015) that were successfully implemented by MFIs in the past. As a result, implementation of old and reviewed regulations and operating guidelines are relegated.

In Ghana's case, there is an intense competition and non-adherence (Sinclair 2012; Cieslik *et al.* 2015) to BoG specified and regulated activities for each tier. This phenomenon has led to cross-tier operations by MFIs (Boateng 2015). Consequently, MFIs' activities result in the non-deposit taking category accepting deposits and savings, thus breaking the rule (Sinclair 2012; Cieslik *et al.* 2015; Kinde 2012: 5). This is a backdrop that has taken over the very tenets of the guidelines directing the operational lines of MFIs in the tier system (Guérin *et al.* 2012; Cieslik *et al.* 2015; BoG 2015).

3.24 Coordination of MF activities in Ghana

At present there is no formal body responsible for coordinating all activities associated with MF, nor is there any valid, on-going forum for dialogue among stakeholders on policy and programme issues (Boateng 2015: 55). As a result, there is fragmentation, duplication and inadequate collaboration between and among MDAs, MMDAs, development partners, service providers, practitioners and end users (Boateng 2015: 54; 55; Aveh *et al.* 2013b).

According to GHAMP (2008), the existing institutional structure does not include all practitioners and service providers, and needs to be addressed. In this regard, the role of GHAMFIN, as an umbrella body for MF apex institutions, as well as their member institutions, needs to be strengthened (Arunachalam 2011) to ensure the transfer of best practices and setting of standards for the industry (Arunachalam 2011 and Franke *et al.* 2011).

Finally, there is little or no well-specified guidelines for operations among Apex bodies namely, GAMC, CUA, GCSCA, ASSFIN and the Cooperative Council. This leads to uncoordinated activities and invariably hampers the performance and outreach of member institutions (MoFEP 2013).

GHAMP 2008 was developed through a consultative process, drawing in the Apex bodies and development partners, as well as the government of Ghana (MoFEP 2013). Dialogue is required on the formulation, implementation and review of regulatory and supervisory policies and procedures (May 2014; Cairney 2012: 4; Hallsworth and Rutter 2011), in order to ensure consistency and efficient approaches to regulation, across different types of MFIs.

Ali (2015a) observes that MFIs in each category often face rigid regulatory and supervisory systems in many countries, which regularly inhibit their product innovativeness (Kumar and Gupta 2013; Rahim and Mohtar 2015), outreach and, ultimately, the performance of the institutions emphasised. There is a need to facilitate the evolution (Mohtar 2015; Abhi *et al.* 2015) of a variety of institutions providing MF products and services, which has to be balanced with the need to protect depositors' funds, provide adequate information and protection to consumers, and coordinate the expansion and regulation of different segments of the market (Ali 2015a: 128).

3.25 The future of MF in Ghana

The Ghanaian MF sector has, in the last decade, displayed signs of growth and has had an impact on the economic lives of over three million Ghanaians (Boateng 2015). Despite these positive signs, the sector is believed to be in its infancy and there is still much to be accomplished, in terms of financial sustainability and outreach (Quao 2011). One of the main challenges facing the sector is the lack of a comprehensive regulatory framework for MF (Boateng 2015). While formal financial institutions have a strong regulatory framework, it is less developed for the MF sub-sector (MoFEP 2013 and BoG 2012).

Various Apex structures and associations have been created, to help coordinate the activities of the different segments of the financial system, in order to address the regulatory challenges. However, regulation and supervision is not as systematic (Addae-Korankye 2012, Aveh *et al.* 2013b; Boateng and Boateng 2014: 11-14) and thorough as one would have hoped. The lack of well-defined guidelines for apex institutions, such as the GAMC, CUA, GCSCA, ASSFIN and the Cooperative Council, has contributed towards the lack of coordination and also inefficiencies in operations (MF*Transparency* 2011).

According to Boateng (2015), the challenges that impinge on the performance of MFIs in Ghana include: undercapitalisation, inefficient management, and regulatory and supervisory inadequacies. To these, Settor Amediku, Deputy Head of the Financial Stability Department at the BoG, adds usurious interest rates and poor outreach (Microcapital 2013). Further buttressing the challenges facing MFIs, Boateng (2015: 52-61) quotes Andah (2005 and Steel and Andah 2008) studies, which identify diversion of funds, inadequate finance, and frequent changes in government policies, as well as heavy transaction costs, huge loan losses, low capacity and low technical skill in the industry (Boateng and Boateng 2014; Addae-Korankye 2012: 136), as impediments to the growth of this sub-sector. Though these challenges, many of which contributed to the failure of previous schemes, are still problematic for MFIs (Boateng 2015: 57), recent evidence points to non-compliance (Sinclair 2012; Kinde 2012: 1-11; Ogbulu *et al.* 2015: 83; Guérin *et al.* 2012) with regulatory requirements as the main issue confronting the industry (Boateng 2015).

3.26 Challenges exclusive to the MF sub-sector

Generally, since the beginning of government involvement in MF in the 1950s, the sub-sector has operated without specific policy guidelines and goals (Aveh *et al.* 2013b). This partially accounts for the slow growth of the sub-sector, and the apparent lack of direction, fragmentation and of coordination (Boateng 2015: 55; Ali 2015a: 125; Aveh *et al.* 2013a).

There has not been a consistent approach to dealing with the constraints facing the sub-sector. Such constraints include: inappropriate institutional arrangements (Henrekson and Jakobsson 2012; Renders *et al.* 2012: 130; 132); a poor regulatory framework (Zahra *et al.* 2013); inadequate capacities (Boateng and Boateng 2014; Lahouel *et al.* 2014; Warnier *et al.* 2013: 1366), as well as a lack of coordination and collaboration (Boateng 2015: 56; Ali 2015a: 125 and Aveh *et al.* 2013b). In addition, poor sector institutional linkages, lack of linkages between formal and informal financial institutions (Boateng and Boateng 2014), along with inadequate skills and professionalism (Warue 2012; Addae-Korankye 2012: 138; May 2014), and inadequate capital, are also considered constraints (Boateng 2015; BoG 2007).

3.26.1 Institutional arrangements

The stakeholders in the sub-sector play various roles that are expected to be complementary (Heracleous and Lan 2012). Due to the lack of defined areas of operation for the Apex bodies, the roles and responsibilities of stakeholders currently overlap in most cases, making it difficult to cooperate (Freeman *et al.* 2012). The overlap is also partly due to the fact that organisational and institutional hierarchy (Smith and Katikireddi 2012), the tier system, as well as reporting relationships among all the stakeholders, are not clearly defined (BoG 2011; GHAMP 2008), resulting in cross-tier operations (BoG 2015).

3.26.2 Human capacity

In order to promote the sub-sector, the GHAMFIN is to organise various stakeholders in training programmes and activities, with the view to upgrading the human capital in the industry. Nevertheless, the staffing and competency level being achieved with these training programmes, is still below what is desired (Addae-Korankye 2012: 138). Accordingly, the human capacity of some key stakeholders and institutions, including MASLOC, GHAMFIN, BoG and MFIs, as well as relevant Ministries, and technical service providers, is currently inadequate (Warue 2012: 27-48) for MF operations. The random and incoherent nature of training programmes (Addae-Korankye 2012: 138) has also hampered the achievements of the projected gains for the sub-sector.

In addition, the flaw in the human capacity of all the stakeholders has had a rippling effect on the governance and structure of the industry (Ayeh 2012: 48; 51; Boateng 2015; Haileselasie *et al.* 2014: 22). Moreover, the current MF Apex bodies lack an adequate cadre of in-house trainers and/or facilitators (Arunachalam 2011; and Franke *et al.* 2011), as well as in-house monitoring and evaluation units (GHAMP 2008; BoG 2007; Boateng 2015: 52-61), to continually measure progress of their activities consistently, over time.

3.26.3 Infrastructure and MFIs operations

Infrastructural capacity in the sub-sector is yet to be developed to offer all round integrated (May 2013) and holistic logistical support to enhance internal operating systems (Boateng 2015; Warue 2012: 32). A literature review indicates that MFI, as social enterprise, thrives on information (Rycroft-Malove *et al.* 2013: 7; Hoekstra *et al.* 2014) for interactivity, at various levels (May 2013: 3). Thus, having a sound and robust information infrastructure is non-negotiable for successful implementation of MF regulatory policies. There is the need for a data exchange centre that will provide the MFIs and the regulator the forum to report and provide feedback on the outcomes (Gong and Janssen 2012) of the implementation process. This will ensure the external regulator has adequate information on the current conditions of the MFIs and reviews the existing policies to align with the exigencies in the marketplace of the MFIs (May 2013; Smith and Katikireddi 2012; Pritchett *et al.* 2012).

3.26.4 Categorisation of MFIs

There is no framework for categorising and upgrading some of the emerging MFIs in the semi-formal and informal sub-sectors, in accordance with their operational capacities and capabilities (BoG 2011). The operating guidelines for financial and non-financial institutions in Ghana (BoG 2011) has, however, provided a guidance note, which is short of a clear distinction, on how any existing institution could possibly migrate from one tier level to another.

The objective of MF is to provide resources for the poor (Addae-Korankye 2012: 135; Kipesha and Zhang, 2013; Sowmyan *et al.* 2011; Boateng and Boateng 2014: 11; Sinclair 2012; Busch *et al.* 2015: 3; Hassan and Said 2014). Nonetheless, there is yet to be adequate, reliable and acceptable methods for classifying various poverty levels (Busch *et al.* 2015: 3; Hassan and Said 2014), in order to enhance the categorisation of potential and actual MF clients and other forms of support that may be more appropriate for some groups.

3.26.5 Lack of national data and reporting system

Generally, there is a paucity of information on MFIs, their operations and clients in the country (Ayeh 2012; BoG 2015). The creation of umbrella bodies for MFIs means that approaches to and methodology for data and information gathering at national level are not uniform, making it difficult to centrally monitor progress of the sub-sector (Warue 2012: 32). The current attempt to develop a national data bank on MF is yet to be fully realised.

According to Warue (2012: 32) and Ali (2015a: 125), there is a lack of well-defined reporting systems by both the government and development partners, with regard to their interventions. The outcome is an inadequate database (Warue 2012: 32) for decision-making and planning. There are also insufficient, well-specified guidelines for operations among apex bodies namely, GAMC, CUA, GCSCA, ASSFIN and the Cooperative Council (Freeman *et al.* 2012; *MFT*ransparency 2011). This leads to uncoordinated activities and invariably hampers the performance and outreach of their member institutions.

3.26.6 MF and problem of supervision

One condition limiting the ability of MFIs to start mobilisation of voluntary savings is the supervision of institutions (CGAP 2011). For the protection of clients, especially depositors, financial institutions that mobilise savings should come under government supervision. This, of course, requires a government that is willing to modify its banking supervision, so that the rules for MFIs are appropriate (Turner 2012; Khalily *et al.* 2014: 1-32; Rahman and Luo 2012) for their activities, and to ensure that the supervisory body is able to monitor these institutions effectively.

3.27 Specific challenges of MFIs in Ghana

The growth of the MF movement has not been without its attendant challenges. These challenges are sometimes inherent in the MFIs themselves or posed by the external environment (Santos 2012: 335), such as taxes, government regulations and the rate of economic growth. Survival of MFIs therefore, hinges on the effective management of these institutional characteristics (Aveh *et al.* 2013b; Renders *et al.* 2012).

3.27.1 Liquidity problems

Most MFIs in Ghana are locally owned (Boateng 2015; Kanake 2014), with no external financial support and the state of the economy in general affects their activities. In instances where the economy is not healthy, it becomes critical for MFIs to survive (Kinde 2012: 1-11). Healthy micro and macroeconomic growth are thus pre-requisites for sustenance of MFIs (MoFEP 2013). This brings the government into the picture because just as the government is seen as playing the role of creating a conducive atmosphere for MFIs to thrive, regulations and corporate taxes should always be made with caution (Cairney 2012: 3), in order not to destroy these MFIs, especially those that serve rural communities.

Mbugua and Makori (2014: 74) identify affordable capital, public confidence, skilled staff, and branch networking, along with competent management, composition of board expertise (Desender *et al.* 2014), use of modern technology and use of diversified and innovative products that meet the dynamic needs of the clients, as key factors for sustainability (Kipesha and Zhang 2013) and efficiency. According to Quacoe, Banson and Sakoe (2015), the majority of MFIs in Ghana have a liquidity challenge and therefore, cannot meet the ever-increasing demand from their customers. This is evident in owner-manager MFIs and other smaller units that weaned themselves from donor support funding (Desender *et al.* 2014).

Boateng (2015) again refers to Steel and Andah's 2008 study and conjecture that MFIs that cannot accumulate assets, cannot equally provide collateral to enable securing larger financial products from the bigger banks. Therefore, most of the MFIs, especially those in rural Ghana, grow at a slower pace than envisaged, hence not meeting all the needs of their clients (Mbugua and Makori 2014: 81) and has increased interest rates in dealing with MFIs.

3.27.2 Lack of client institutional operational information

Problems precipitated by uncertainty are exacerbated by the lack of reliable information on the past credit history of borrowers (Warue 2012: 28; Ali 2015a: 126). Indeed, credit information on rural borrowers is difficult to obtain (Boateng 2015; BoG 2012), with the majority relying on moneylenders and other informal lenders. Apart from this, many rural customers do not keep record of their transactions, due to a low level of education (Addae-Korankye 2012: 137) in the operating prefecture of the MFIs. The unavailability of credit information, to a very large extent, constrains the volume of credit to rural dwellers because performance risk measures are unavailable (Akinlo

2014); since the current risk management practice of banks is to control loan amounts (Akinlo 2014).

In effect, better information on clients is critical to the sustainability of an MFI (Aveh *et al.* 2013b), as credit information is needed to assess the creditworthiness of clients (Akinlo 2014). The absence of this information limits and exposes the credit provider to a greater risk than expected (Akinlo 2014). The author further postulates that information asymmetries (Aliul-Rahman *et al.* 2014; Song *et al.* 2015) make screening out high risk borrowers more difficult; thus financial institutions have no means of securing their credits against defaulting clients (Aveh *et al.* 2013b). The defaulting clients also run high risks, which explain why financial institutions will typically impose punitive interest rates (Mbugua and Makori 2014: 82) for delayed payments and might even confiscate assets of defaulting clients.

At the institutional level, data/information gathering and dissemination are weak within and between institutions (Akinlo 2014: 135). The lack of common benchmarks, methods for measuring and information sharing, further inhibits the performance of the sub-sector (Warue 2012: 28; Akinlo 2014: 135). The insufficiency of relevant and reliable information on outreach, in terms of its depth and breadth, remains one of the most daunting in the sub-sector, according to Boateng (2015) and Quao (2011). This explains why the lack of information has affected the targeting of clients and ultimate poverty reduction.

3.27.3 High operational costs

Many studies identify high costs as a challenge to MFIs (Akinlo 2014; Mbugua and Makori 2014: 81; Addae-Korankye 2012: 139; Aveh *et al.* 2013b). High unit costs are usually passed on to rural clients (Mbugua and Makori 2014: 81), thereby making them pay higher interest rates (Akinlo 2014). Indeed, the administration of either a small or large loan will be the same but, as Akinlo (2014) explains, the small size of rural loans results in a high due diligence cost per loan, exacerbated by the heterogeneity of borrowers, making it extremely difficult for formal, financial institutions to cover costs (Mbugua and Makori 2014: 81).

Financial institutions have to be innovative (Akinlo 2014) and offer products that meet the dynamic needs of clients (Mbugua and Makori 2014: 74) by adopting a policy of risk minimisation to reduce costs. Innovations and technology (Cairney 2012) will drive MFIs toward the achievement of cost reduction and growth. Modern technology enables MFIs to lower total operating costs (Song *et al.* 2015) of a firm, support growth and access to financial services, as well as product development, while diversification will provide MFIs with a competitive edge, in addition to meeting the dynamic needs of clients (Mbugua and Makori 2014: 81).

3.27.4 Weak regulatory framework

As with Akinlo (2014), many other evaluations of MF recognise the weak legal framework and enforcement issues (Ogbulu *et al.* 2015: 82; Zahra *et al.* 2013) as a challenge to MFIs. Government has not been able to develop and enforce a legal and regulatory framework conducive to rural finance (BoG 2011), thus contract design, contract renegotiation, and contract enforcement remain weak, making it rather more difficult for financial institutions to provide clients with the right incentives for repayment (Akinlo 2014). In the words of Albert Einstein (n.d) "*Nothing is more destructive of respect for the government and the law of the land than passing laws which cannot be enforced*".

There is a huge challenge in introducing government policy reforms, in order to enhance the overall incentive framework, and of the regulatory, as well as the legal system (Akinlo 2014) within which MFIs operate, with a view to promoting greater efficiency in their operations. Financial services sector regulations and intense competition in the industry (Mbugua and Makori 2014) hamper the MF sub-sector. Boateng and Boateng (2014: 12) argue that the Universal Banking Law has enabled some city banks, especially the merchant banks that have branches only in a few major cities, to open more branches, both in the cities and in some of the regions, to attract more customers, even those of the MFIs.

Further, with the city banks having the capacity to grant bigger credit facilities at competitive rates, the MFIs' opportunity to grant credit is crowded out, thus reducing their profit levels (Boateng and Boateng 2014: 12). Akinlo (2014) and Boateng (2015) affirm that an enabling policy, as well as a legal and regulatory environment for MF (Cairney 2012; May 2014), is needed to enhance the operability of MFIs. The authors further indicate that good staffing and geographical distribution of the MFIs must be appropriate, so as to ensure wide coverage of financial inclusion (Kipesha and Zhang 2013; Nzaro *et al.* 2013). This, by implication, means the savings and repayment mechanisms being promoted by urban MFIs are not likely to work effectively for rural clients.

MFIs in Ghana face a poor regulatory environment (Ogbulu *et al.* 2015; Balogun and Abraham 2012; Ojo 2013; Nzaro *et al.* 2013; Sinclair 2012; Founanou and Ratsimalahelo 2012: 64; Cairney 2012), in addition to regular changes in government policies (Winter 2012) and paucity of capital (Addae-Korankye 2012: 139). Other deficiencies include inadequate skills and professionalism (Mbugua and Makori 2014: 75), along with infrastructural inadequacies, socio-cultural misconceptions, and corruption, fraud and forgeries, as well as poor CG (Boateng 2015; Kanake 2014). This view is based on the fact that the regulatory structure in Ghana is, according to Boateng (2015), not robust enough to ensure sanctity in the operations of the MFIs.

While this is true, monitoring (Viswanathan 2014) both on-site and off-site, can significantly contribute to compliance (Hill and Hupe 2015; May 2013) and such sanctity. Many other MFIs in the SSA face a similar fate and the experience of Ghana in this regard is no different, as the monetary authorities have had to watch powerlessly as their monetary policy measures fall short of preferred goals (Wampah 2012; BoG 2013; Centre for Policy Analysis 2013).

Added to this, the governor of the BoG affirms that MFIs in the informal category face rigid regulatory and supervisory systems that present some challenges for product innovativeness, outreach and, ultimately, the performance of the institutions (Wampah 2012; Haileselasie *et al.* 2014: 21; Microfinancegateway 2011).

3.27.5 Governance failure

The general crisis that has bedevilled the sub-sector lays the failure of the MFIs on governance (Haileselasie *et al.* 2014: 21). Marr and Tubaro (2011: 996-1003) point out that excessive growth in the MF sector has resulted, due to the exorbitant interest rate, which is blamed for triggering clients' over-indebtedness. Arunachalam (2011), Franke *et al.* (2011) and Marr *et al.* (2011), on the other hand, reveal that the core cause of the crisis can be found in the lack of control and monitoring of operational activities, by the board and management.

This problem was aggravated because boards were not truly independent, with even institutional nominee directors being inactive and lacking diligence, in controlling the activity of MFIs (Arunachalam 2011; Franke *et al.* 2011; and Marr *et al.* 2011). It is also noted that the lack of diversification and concentration of the MFIs in only a few areas, aggravated the crises (Marr *et al.* 2011; CGAP 2010).

Additionally, various scholars find that regulations, corporate governance and leadership influence loan delinquency and defaults for MFIs (Mustafa *et al.* 2011; Odera 2012; Warue 2012: 27; 29; Raj and Sindhu 2013: 3). The failure of many MFIs, according to Sebhatu (2011), can be directly linked to a weak organisational arrangement (Henrekson and Jakobsson 2012: 212; 223; Renders *et al.* 2012) and governance problems, policy and regulatory environment (Cairney 2012; Hallsworth and Rutter 2011: 18), as well as weak institutional capacity (Daly 2015). It is possible that MFIs and other intervention programmes with poor arrangement, governance problems and institutional capacity, could not enforce effective credit management practices.

3.27.6 Poor credit management

One of the issues many authors consider as a pillar for sustainability (Kipesha and Zhang 2013), which is still a cause for the failure of many MFIs, is loan management and a high rate of default (Addae-Korankye 2012: 141). The sustainability of MFIs depends largely on their ability to collect loans as efficiently and effectively as possible (Owusu *et al.* 2015). In other words, to be financially viable or sustainable, Addae-Korankye (2012: 138) posits that MFIs must ensure a high portfolio quality, based on 100 percent repayment, or at worst, low delinquency/default cost recovery and efficient lending. The author reports, in a study in Ghana involving 25 MFIs, that 60 percent of the MFIs have their default rates set at more than the internationally acceptable rate of three percent of loan default (Addae-Korankye 2012: 138).

This situation poses serious threats to the operations and sustainability of these MFIs, which are the financial backbone of Micro, Small and Medium Enterprises in Ghana (Owusu *et al.* 2015: 4). A delinquent loan becomes a defaulted loan, when the chance of recovery becomes minimal (Addae-Korankye 2012: 138) and the client fails to meet the legal obligation, according to the contract (Ameyaw-Amankwah 2011) or in some other way does not comply with the terms of the loan (Murray, 2011). Defaults occur due to a lack of willingness to pay loans, diversion of funds by borrowers, wilful negligence, and improper appraisal by credit officers (Addae-Korankye 2012: 138).

Other studies identify the improper selection of clients, due to information asymmetry (Ojo 2013: 7; Mensah 2013: 165; 172), deficient analysis of project viability, inadequacy of collateral security, unrealistic terms and schedule of repayment, as well as a lack of follow-up measures, natural calamities, and the nature and time of disbursement (Owusu *et al.* 2015: 4 and Addae-Korankye 2012: 136). Warue (2012: 35) cites the poor loan management process, inadequate financial analysis (Sheila 2011) and management failure (Warue 2012: 36).

Proper and adequate appraisal is key to controlling or minimising defaulting (Sheila 2011 and Addae-Korankye 2012: 139), coupled with due diligence during the monitoring and control stage in the lending process, are also cited as an effective way of reducing defaults (Sheila 2011). Mensah (2013) finds that moral hazard, over-borrowing by customers, and the inability of loan officers to visit borrowers regularly, are among the factors that influence loan defaults among customers of MFIs in Ghana.

By delaying or failing to repay the loans (Addae-Korankye 2012: 139), it is implied that borrowers were not considering the sustainability of MFIs. Gyamfi (2012) asserts that the investment of MFIs in quality manpower is essential, since only qualified manpower (Sirmon *et al.* 2011) could assess clients efficiently, which could improve the management of clients' credits risks (Boateng 2015; Kanake 2014) and hence, maintain a good portfolio (Sirmon *et al.* 2011; Gillis *et al.* 2013).

The sustainability of an MFI depends on how effectively repayments are enforced (Addae-Korankye 2012: 139). Most challenges are related to loan repayments, management quality (Sirmon *et al.* 2011), availability of funds, and misappropriation by management (Mensah 2013). To ensure repayment, the BoG (2013) stipulates caps on loans for both clients and staff – 'insider lending'. An MFI that is plagued with large and continuous nonrepayments faces imminent collapse (Addae-Korankye 2012: 139; Murray 2011; Owusu *et al.* 2015; and Sheila 2011).

MF clientele are the poor farmers, traders, artisans, and teachers, as well as fishermen and general workers (Aveh *et al.* 2013a). In this list, according to Aveh *et al.* (2013), the most vulnerable and likely to default in repayments are the farmers, whose livelihood depends on uncertain weather conditions, with the least vulnerable being the traders that mostly buy and sell immediately or shortly thereafter.

The difficulty faced by MFIs is whether to stay with their traditional role of providing finance to the poor, such as farmers, who are more likely to default on repayment, or rural and urban traders, who make quick profits and are prompt payers (Aveh *et al.* 2013b). This explains the reason why most MFIs cluster in the cities, where their clientele comprises more salaried loan/advance and petty retailers, than the original, rural-based establishments (Owusu *et al.* 2015).

Mbugua and Makori (2014: 75) further pinpoint diversity in institutional form and lack of performance culture, as challenges crippling MFIs. The authors state that institutional categories are not well-defined by countries applying the tier system (BoG 2011) and this results in cross-tier operating activities being engaged in by various MFIs (BoG 2015; Guérin *et al.* 2012). MFIs are, furthermore, evolving (Santos 2012: 338) as their activities expand. The quest to reach as many clients as possible and intense competition force many of the MFIs to engage in activities other than the core (Guérin *et al.* 2012; Ogbulu *et al.* 2015; Cieslik *et al.* 2015) operating activities they are licensed for.

3.27.7 Insider and related party lending

According to the glossary of Microfinancegateway (2011), insider loans are “loans made to a person who is in a position of influence within the lending institution, or to someone else connected with such a person”. Insider lending has been a serious problem among many financial institutions (CGAP 2011), in both developed and developing countries. Due to the inherent conflict of interest (Song *et al.* 2015; Puyvelde *et al.* 2012) of such loans, they usually belong to the least-earning assets. In some cases, loan conditions are much more favourable than for external loans, while in other cases, it is simply much easier for borrowers to have their loans rescheduled or even forgiven (CGAP 2011; Microfinancegateway 2011).

One would think that insider lending is less of a problem in MFIs than in traditional banks (CGAP 2011; Microfinancegateway 2011), as the small loan size – especially when there is a strict ceiling on loan sizes (BoG 2013) – makes borrowing for the relatively better-off insiders less attractive (Boateng 2015).

The first question that arises is: who is an insider? Definitions and terms vary considerably. Boateng (2015) posits that an insider is either the one who is in an official position, a staff member and or people connected to such persons, who wield some influence to exact loans beyond the established limit or at favourable terms.

According to Boateng (2015) and Idama, Asongo, and Nyor (2014: 101), the following is a list of the most commonly used terms to describe an insider: directors, officials, employees, affiliated persons, and founders, as well as management level officials, and in each case, possibly also their spouses and relatives. However, one would have to look into the exact definition to obtain a clear picture of the wide spectrum of definitions (Boateng 2015: 52-16; Idama *et al.* 2014: 101; Kanake 2014). In some countries, connected firms are also treated as insiders (Boateng 2015).

An alternative option is to restrict the volume of insider loans to a certain percentage of capital (BoG 2013). This approach applies in Ghana; where in some cases, a different ceiling is used for loans to employees (BoG 2013). These loans are limited to 200 percent of an employee’s annual wage in Ghana and 100 percent in Uganda (CGAP 2011). Loans to connected firms of deposit-taking NBFIs in Ghana are limited to 10 percent (secured) and five percent (unsecured) of their net worth (BoG 2013).

3.27.8 Role overlaps of Apex Bodies

The various stakeholders are expected to develop appropriate strategies for the responsibilities they have been assigned in the policy, however, implementation roles and responsibilities of key stakeholders are not clearly defined (Boateng 2015). The BoG (2011; 2013) stipulates that all MFIs must register with the GHAMFIN, the umbrella and coordinating body. This condition is a incentive for renewal of an operating license for the MFIs (BoG 2011). In this same instance, RCBs and other financial institutions engaging in MF activities are regulated under a different Act, as well as operating under some other Apex institutions, such as ARB Apex and AsFIN, which also register the same MFIs considered under the GHAMFIN. The result is that the institutions are confused as to the exact body that exercises the mandate of the BoG (Boateng 2015: 52-61).

3.27.9 Monitoring and evaluation

The capacity of individual institutions in the sub-sector, even that of the apex bodies, to undertake monitoring and evaluation of programmes and activities, is currently inadequate (Wampah 2012; Warue 2012; Microfinancegateway 2011; Ali 2015a: 123-129). There is also no existing national monitoring and evaluation framework to guide practitioners (Wampah 2012) in their activities. In addition, different monitoring and evaluation frameworks are being used in different programmes (Microfinancegateway 2011; Ali 2015a), making it difficult to undertake comparative assessment of programmes and projects, for their impact on the performance of institutions and clients (Warue 2012).

Monitoring relies on available data. Current research activities within the sub-sector are inadequate and weak, mostly because research studies undertaken in the sub-sector are uncoordinated (Boateng 2015). There is therefore, no national research agenda (Warue 2012; Ali 2015a) to inform planning and policy formulation in the sub-sector because the institutional data, which should be fed into the national database, is grossly insufficient (Wampah 2012).

3.28 Conclusion

The chapter vividly highlights the MF concept and briefly compared the practice of MF in different jurisdictions in Africa, the Eastern block and Latin America. It is clear in the discussion that all MF-practicing countries have one kind of regulation or the other and some approach to regulating the MFIs – either no regulation, self-regulation, prudential or non-prudential. However, the literature identifies some exclusive issues that could negatively impact efforts to ensure sound implementation of MF FMPs, notably: weak and less clear regulations, exacerbated by poor governance; inadequate supervision; and the lack of a reliable database for close monitoring. The inability of the MF sector to develop infrastructure capable of enhancing proper communication and coordination of the MFIs, as well as management inefficiencies, were also touched on.

The next chapter will discuss the methodology adopted by this study, the data collection instrument and how survey outcomes will be analysed.

CHAPTER FOUR
METHODOLOGY

4.1 Introduction

This study has three objectives to achieve, namely to discover facts (data) that may be used to describe situations, to evaluate actions and to answer the research questions. In order to attain these objectives, Nylander and Renbergy (2014) put forward that it is vital that the facts revealed by the research are accurate and measurable, in statistical and descriptive terms. That is, data that lends itself to statistical manipulation, as well as descriptive analysis, will produce accurate outcomes and vividly explain the phenomenon that drives the entire research.

The purpose of this chapter, therefore, is to explain how the data were collected and analysed. The first section deals with the research and questionnaire designs, while the second section deals with different types of analyses conducted on the data. The issues of validity and reliability of the data from the methods chosen, as well as the potential errors that might occur, are covered in the third section. The control measures of these errors are of critical concern in research, and every effort has been made by the researcher to correct them.

4.2 Research design

The design outlines how the research intends to answer the research question (Nylander and Renbergy 2014). Various definitions of research design differ in detail, yet have some essential features in common, which include:

- The design is always based on the research questions;
- The design is activity- and time-based;
- The design guides the selection of sources and types of information;

- The design is a framework for specifying the relationships among the study variables; and
- The design outlines procedures for every research activity. Thus, the design provides answers for questions, such as what techniques will be used to gather data? What kind of sampling will be used? How will time and cost constraints be dealt with?

In this context, the research problem reveals the type of data needed and the method of analysis; hence the choice of particular data collection and analysis methods is always determined by the nature of what the research wants to find out, the distinctive characteristics of the research problem, and the specific sources of information. Consequently, Terrell (2012: 255) states that it becomes imperative to decide first on the type of analysis: quantitative or qualitative, required to investigate the research problem and then on the type of data to be collected, in order to make that analysis.

This study adopted a mixed methodology, which comprises quantitative and qualitative data gathering and analysis. The choice is relevant, due to multiple influences that might account for non-performance of MFIs, which calls for inductive and deductive inquiry. The quantitative data was collected to measure operational and regulatory information of the MFIs. Data was collected concurrently, using both quantitative and qualitative methods (Terrell 2012: 255; 256). The research is inclined to descriptive analysis, as the aim was to explore the regulatory challenges of MFIs to offer explanation and promote strategies to forestall bottlenecks in implementing FMPs, as well as contribute to an improved MF sector of the financial system in Accra.

Qualitative research finds answers to 'how' questions and addresses contemporary issues (Yin 2012), grounded in reality and bounded by systems and a number of cases (Creswell 2013) and events of interest (Creswell and Plano Clark 2011), such as problems of regulating MF in

Accra. A qualitative case study approach involves the examination of assorted views as its defining factor (Thomas 2011: 513). This research focused on the facilitation of monitoring policies for MF and to explore it in detail through the open-ended section of the questionnaire, which sought to obtain a variety of information that will yield emerging, multiple data (Kasinath 2013: 46-57; Thomas 2011: 516) of the MF setting in Ghana.

4.3 Population/target population

The population of the study is the MFIs in Ghana. The target population comprised the tier two MFIs licensed by the Bank of Ghana (BoG) that are operating in the Accra.

4.3.1 Sample population and size

The Bank of Ghana Guidance Notice to Financial and Non-financial institutions (2015) listed 518 MFIs legally registered across the ten political regions in Ghana; operating at various tier levels (BoG 2015). Although no regional data were provided on these MFIs, most MF operators licensed to open branches do have branches or agencies in the Greater Accra region. The sample for the study is made up of 65 MFIs specifically, out of 83 MFIs in the Greater Accra and the nationwide population of 518 institutions. The 65 respondents will comprise key management of the selected MFIs in Accra.

Relating the sample size to the population and research method, which focused more on descriptions rather than numbers, Nylander and Renbergy (2014); Karun (2013) and Meissner (2012) express that the use of a smaller sample is therefore more appropriate for this study.

4.3.2 Sampling method

Unlike a census when data are collected from every member for analysis, it is impractical for most research to survey the entire population, due to time and budget constraints. Alternative sampling methods provide a means of enabling the researcher to reduce the amount of data needed to collect, by considering data from a sub-unit rather than capturing the entire population. According to Palinkas, Horwitz, Green, Wisdom, Duan and Hoagwood (2015: 535), it is therefore important to define the characteristics of the population of interest. Thus, the key characteristics of MFIs in Ghana, as described in chapter two of this study, were used to guide identification and selection of respondents for data collection.

A non-probability purposive method was used to select senior managers and executives of the MFIs as key participants for data gathering. The non-probability purposive sampling ensures correct identification and selection of information-rich cases relating to the phenomenon of interest (Palinkas *et al* 2015: 538) and thus only subjects with specific characteristics were selected for the study (Patton 2002, in Creswell and Plano Clark 2011). This is to ensure holistic data, in its entirety (Hyett 2014) were collected. Palinkas *et al* (2015: 538) conclude this is a relevant sampling method in implementation research, hence the choice is justified based on two specific objectives of this study: establishing how FMPs for MF are implemented and monitored; and evaluating the problems faced by the MFIs in implementing the FMPs.

The choice of these participants would, according to the researcher's judgement, provide the appropriate, in-depth information needed, based on their specialised knowledge of the research issue, for appropriateness from a unique unit (Palinkas *et al* 2015: 538), as well as thoroughness and effectiveness (Terrell 2012: 256, 258).

The selected sample did not include the institutions contacted during pre-testing and full consent was obtained from all participants for inclusion in the study. The reason for using this method was the aim of achieving valid and coherent data that would ensure quality in both analysis and presentation.

4.4 Measuring instrument

Questionnaires were the main instrument used to gather data for this study. According to Bryman (2015: 231), questionnaires provide the respondent the room to respond to the questionnaire at their convenience. The nature of this research and the kind of facts needed to achieve the objectives thereof, suggest the choice of questionnaire as the survey instrument. The objectives of the research, emphasised by the literature review, were used to guide the formulation of questions contained in the questionnaire for this study.

Before the final questionnaire was developed, a pre-test was conducted on five MFIs (this does not form part of the sampled population) to ascertain the relevance of the questions to include in the questionnaire. The pilot survey was conducted in January to establish whether the questions were appropriate, what respondent reaction was, the time for completion and collection, as well as the recovery rate. In addition, the pilot study would have identified the need for further explanation on any question. Five institutions were served with adequate explanations and with a predetermined collection period of one week. Four out of the five institutions responded indicating a recovery rate of 80 percent within the stipulated time.

The pilot survey also helped to polish the wording of the questionnaire, estimate time to complete the questionnaire and determine the length and number of questions. Furthermore, it aided in clearing all ambiguities, establishing the response rate and ensuring that the questionnaire touched on all essential issues, in order to collect wholesome responses that encapsulate the research objectives and questions.

In this study, a combination of both a closed-ended questionnaire (a questionnaire that provides a number of alternative answers from which the respondent is instructed to choose) and open-ended questions was used to collect primary data. A questionnaire with a 5-point Likert scale and closed-ended questions was used to gather quantitative data from the MFIs, while five structured, open-ended questions, purported to probe for certain critical information, were employed as measuring instrument, to obtain data for qualitative analysis.

Respondents were provided five options to select from, based on whether the respondent agrees or disagrees with a statement or question. The open-ended questions left enough space for the respondent to provide detailed information, based on their knowledge of the subject matter.

Table 4.1: Sample of the questionnaire

Important: Please, indicate a tick (√) against each of the statements/questions under each of the following options "1: SD = Strongly Disagree"; "2: D = Disagree", "3: N = Neutral", "4: A = Agree" and "5: SA = Strongly Agree".

Statements/Questions	**SD** **1**	**D** **2**	**N** **3**	**A** **4**	**SA** **5**
Regulations					
1. There are sufficiently clear financial regulations available for microfinance institutions.					
2. Financial regulatory policies for MF operations regarding the following areas are flexible and friendly:					
a. Licensing					
b. Minimum capital requirement;					
c. Capital adequacy;					
d. Liquidity management.					
3. There is sufficient stakeholder participation in policy-making procedures.					
4. There are adequate, supplementary guidelines on the relevant regulations.					
Implementation					

5. There is no co-operation or close dialogue between policy-making bodies and individual institutions.					
6. Compliance to operational guidelines is inadequate.					
Monitoring and supervision					
7. Frequency of reporting and reporting requirements are rather rigid and do not create a suitable environment for sustainability of the MFIs.					
8. Offsite monitoring (submission of reports) and on-site monitoring (institution visits and assessments) are not integrated.					
Challenges					
9. There are difficulties in complying with the regulatory policies in the following areas:					
a. Minimum capital requirement;					
b. Reporting requirements;					
c. Capital adequacy.					
10. The constant amendment of the banking operating guidelines for MF is devastating service provision and is highly operationally restrictive.					

Source: Designed for this research

The questions were designed to collect relevant facts regarding various aspects of financial regulations, governance, monitoring and supervision, implementation of those regulations, and financial regulatory challenges faced by the MFIs in Accra. Thus, the questions were structured to collect all the relevant data for this study, while the literature review, relating to the research objectives and research questions, motivated the full content of the questionnaire.

The following aspects were covered:

- Name of the MFI;
- Regions of operation;
- Year microfinance operations began;
- Legal form: Bank, Rural bank, NBFI, NGO, Cooperative/Credit Tier level;
- Authorised activities;
- Report for Year ended (day – month – year);
- Number of loan accounts;
- Number of currently active borrowers (not loan accounts);
- Number of savings accounts;
- Number of current voluntary savers (not savings accounts);
- Total number of members (where applicable);
- Total number of staff;
- Aspects of regulation;
- Implementation;
- Monitoring and supervision;
- Bases of monitoring, supervision and reporting; and
- Types of challenges and their contributing factors.

A follow-up inquiry was conducted, where necessary, to ensure consistency and congruency with responses to the structured, open-ended questions and that in-depth information is obtained. Nagar-Ron and Motzafi-Haller (2011) conclude that a follow-up affords the researcher the opportunity to inquire more into issues raised in the responses received; and is employed in order to authenticate and avoid information distortion.

Based on the specific objectives of this study and the responses obtained during the pilot survey, the questionnaire was structured as follows:

Objective 1: To assess the financial monitoring policies (FMPs) for MFIs in Ghana and how they are formulated

Question 1: was used to ascertain whether financial regulations do exist;

Question 2: was used to determine which regulations are available;

Question 3: was used to find out how these regulations are formulated;

Question 4: was used to ascertain whether any supplementary guidelines are available;

Question 5: was used to assess how appropriate the regulations are to the operations of the MFIs; and

Question 25: was used to obtain opinion on any available regulatory support.

Objective 2: To assess how the FMPs are implemented and monitored

Question 6: was used to assess any dialogue between the MFIs and policy-makers;

Question 7: was used to assess available systems to ensure compliance from the MFIs;

Question 8: was used to ascertain MFIs' governance structures;

Question 9 and 10: were used to identify the level of compliance of the MFIs in Accra;

Question 11: was used to identify aspects of internal monitoring of the MFIs;

Question 12, 13 and 14: were used to assess external monitoring;

Question 15: was used to assess reporting and frequency of such monitoring;

Question 21: was used to identify the basis of supervision applied to the MFIs; and

Question 23: was used to evaluate the impact of external monitoring on the MFIs.

Objective 3: To evaluate challenges faced in implementing policies

Question 16: was used to assess challenges regarding aspects of the FMPs;

Question 17: was used to evaluate external regulatory support for MFIs;

Question 18: was used to gauge some market factors and their impact on the MFIs;

Question 19: was to establish other resource problems that hamper policy implementation by the MFIs;

Question 20: was used to appraise the impact of regulatory review on the MFIs;

Question 22: was used to examine the challenges of the legal framework to the MFIs; and

Question 24: was used to assess opinion on other factors that may account for challenges in complying with the regulatory instruments.

4.5 Administration of survey instrument

One of the main primary data collection instruments in social research is the survey questionnaire (Bird 2009: 1311), therefore, being a critical component of the research work, when poorly designed, the questionnaire could impact negatively on the research outcome (Palinkas *et al* 2015: 538). The questionnaire made it easy to access information from the respondents, taking the manner in which MFIs were contacted into consideration, along with the medium of delivery and the administration of the questions.

Different methods are likely to have different effects on the quality of data collected. Quality of data, according to Fielding (2012: 3266), Creswell and Plano Clark (2011) and Terrell (2012: 257), revolves around response rate, accuracy of response, absence of bias and completeness of information obtained from the respondents. To achieve this, Creswell (2013) postulates that the researcher has to not only consider the language and wording of the questions, but also the question order in the questionnaire. This was achieved during pre-testing. The pre-test revealed the language and time for completion and this guided the length of the questions and the accessibility of the contact persons.

With a choice between interviews and self-administered questionnaires, this research adopted a personally administered questionnaire, as it has many advantages. These include:

- The MFIs attend to a myriad of social issues that leave them with limited time for anything else. Self-administration therefore ensures the MFIs answer at their own pace and grant the respondents the opportunity to seek explanation to certain technical questions;
- Self-administration is economical in terms of time and cost of hiring interviewers because many individual reactions will be obtained;
- It is devoid of misinterpretation or distortion as different settings may influence the interviewers' attention;
- Questionnaires that are self-administered are more unanimous and may therefore yield accurate data on sensitive issues;
- Distribution onsite is a great advantage due to personal contact with the relevant persons in each of the MFIs visited; and finally
- Standardised responses to all the questions contained in the questionnaire result from self-adminstering.

(Bryman 2015: 237; 252).

Apart from the advantages listed above, MFIs are widely dispersed. The most appropriate way to reach each of the institutions purposefully selected is through personal contact offered through self-administration of the questionnaire.

The questionnaire has an introduction that explains the research and its intended outcome. For this study, 65 questionnaires were distributed to identified institutional respondents; MFIs in Accra. Data was collected in the form of completed questionnaires, with a personal interview as a follow up on the open-ended questions. This was done by means of site visits and hand delivery of the measuring instrument to the respondents.

Two undergraduate students were trained and briefed on the topic and equipped to help in distributing the questionnaires. This was done to standardise the results of the research outcome. The distribution started from 22 February 2016, continuing through to 29 April 2016. In order to increase respondent ability to answer the questionnaire, detailed instructions and explanations were proffered throughout the survey period and the researcher and assistants were on hand to give more explanations on any aspect of the questionnaire not understood by the respondents. Instructions were exactly the same on all questionnaires and were pre-coded to avoid inconsistency.

4.6 Data analysis

According to Bryman and Bell (2015: 347), once data have been captured and stored in the format of a dataset, they can be used for analysis. A high quality dataset will be of limited use when the captured data cannot be analysed effectively. There are various options, such as primary data analysis techniques that can be used when it comes to data analysis (Bryman and Bell 2015: 347; Li 2013: 3325).

Data analysis involved sorting, collating and coding, as well as tabulation or organisation of the collected data, in order to derive meaning from it (Bryman and Bell 2015: 347; Ho 2013; and Li 2013: 3325). Data gathered were analysed using SPSS 24.0 for both quantitative and qualitative data. The SPSS 24.0 was specifically used to generate graphs, cross-tabulations and tables for descriptive analysis (Ho 2013). In this study, data analysis was an ongoing activity, as qualitative data was being gathered. This enabled the research to identify themes and categories that call for further probing and other, specific attention; since qualitative data gathering, through open-ended questions, aims at exhaustively exploring information.

The first type of analysis was frequency tables, for example, the number of times a certain response was made (Bryman and Bell 2015: 347) and to check the total number of questionnaires distributed and collected. Following this, the variables were screened, identifying those variables that are highly influential on the dependent variables of the study. Finally, a number of other analytical procedures were used. In order to test relationships, bivariate analysis was used in the form of cross-tabulations (Ho 2013), while appropriate inferential statistics were used to test relationships. Data were presented by means of bar graphs, as well as tables, to show the association between variables (Kumar 2013: 48).

4.6.1 Frequencies

Frequencies were used to determine how often a respondent made a certain response to a particular question and to check the coding of data (Ho 2013). When the responses do not equal the sample total, it means that the data were not correctly captured (Bryman and Bell 2015: 347; Ho 2013). The information gathered from the frequencies allowed for the analysis of the results and conclusions of the study.

4.6.2 Correlations

Xiao, Halbach, Simcik and Gulliver (2012: 3101-3109) describe correlation as a statistical technique that can show whether, and how strongly, pairs of variables are related. This means that +5 and -5 represent the strength of the relationship between two ranked or quantifiable variables (Li 2013: 3325; Xiao *et al* 2012: 3103). For example, in this study, correlation was used to measure the relationship between the use of FMPs' relevance and their implementation, along with factors that pose challenges to the implementation of FMPs (see next chapter).

4.6.3 Descriptive statistics

Nyklicék (2012) indicates that descriptive statistics are distinguished from inferential statistics, in that descriptive statistics aim to quantitatively summarise a data set, rather than being used to support inferential statements about the population the data are thought to represent. In this study, descriptive statistics were generally presented along with more formal analyses, to give the reader an overall sense of the data being analysed.

4.7 Validity and reliability/trustworthiness

4.7.1 Validity

Kumar (2013: 48) states that the procedure of gathering relevant evidence, to uphold or fail to support a particular interpretation of test scores, is referred to as validation, while validity is the ability of an instrument to measure what it is designed to measure. Therefore, to ensure validity, the responses to the questionnaires were carefully examined, so as to ascertain whether they, in fact, represented the research expectations. That is, validity refers to the outcome of the survey but not to the survey itself.

There are different degrees of validity. In other words, validity can be high or low. It is important to interpret validity within the context in which the test occurs. Hence, to test the validity of this study, a pre-test was done. Structured, open-ended questionnaires and closed-ended questions were used to collect qualitative and quantitative data for this study.

The questionnaires were pre-tested to establish the credibility of the findings; by addressing the following questions regarding the study:

- Is the research measuring instrument appropriate for achieving the research objectives?
- Does the research actually analyse the FMPs and how these policies are implemented by MFIs in Accra?

Two approaches are proposed by Kumar, to determine the validity of an instrument: the establishment of a logical link between a research objective(s) and the questions used in an instrument, as well as the use of statistical analysis to demonstrate this link (Kumar 2013: 48). Measuring instruments produce numerical scores, with the interpretation of the scores being the critical issue, which may or may not be valid. Thus, data consistency and trustworthiness will emerge from the use of multiple techniques (Kumar 2013: 48). Participants' names were not included, with dummy names substituted, resulting in the confidence of the respondents being boosted to give honest responses to the questionnaires and full answers during the data collection.

There are several types of validity that can be considered. However, for this study the following types of validity were considered.

4.7.1.1 Content (or external) validity

The content validity criterion requires that a survey be verified to actually reveal the substantive realities of the construct of interest (Melissa 2016). The "gold standard" for establishing content validity is triangulation, defined as the 'mishmash of methodologies in the study of the same phenomenon'. Hussein (2009) also defines triangulation as the use of multiple methods, mainly qualitative and quantitative methods, in studying the same phenomenon, for the purpose of increasing study credibility. Torrance (2012: 117) explains that triangulation is an important component of mixed method designs. The author further states that, "triangulation has its origins in attempts to validate research findings by generating and comparing different sorts of data, and different respondents' perspectives, on the topic under investigation" (Torrance 2012: 113).

Triangulation addresses different facets of a research issue, using different methods that complement each other, and is increasingly recommended as a means of establishing the external validity of research (Nyklicék 2012). The importance of using triangulated data collected in this study was enhanced by the multifaceted nature of the phenomenon.

This implies that triangulation is the combination of two or more methodological approaches, theoretical perspectives, data sources, investigators and analysis methods to study the same phenomenon. Creswell (2013) further emphasises that triangulation brings about complementarity, convergence and dissonance among the findings. Researchers therefore triangulate by comparing survey results to data obtained via observation, semi-structured interviews, qualitative work, and/or expert or respondent review of the survey. The research employed questionnaires to collect quantitative data and some qualitative data from the MFIs. An interview was also conducted to confirm and compare that information collected by the questionnaire and that of the interview are consistent. This comparison minimises the risk that a survey captures *a priori* assumptions about what is important in the construct, rather than the true scope of the construct (issues relating to the MFIs).

This study explored methodological triangulation of qualitative and quantitative approaches, which Hussein (2009) and Creswell and Plano Cllark (2011) define as the use of more than two methods in studying the same phenomenon under investigation. This type of triangulation may occur at the level of research design or data collection (Creswell, Klassen, Plano Clark and Smith 2011). Methodological triangulation is the type of triangulation that has been widely used in social sciences.

The questionnaire for this study comprised questions for quantitative, as well as qualitative data. We collected both quantitative and qualitative data through questionnaire concurrently. Researchers (Creswell *et al.* 2011; Hussein 2009) indicate that, when the researcher collects both quantitative and qualitative data concurrently and then compares the two databases to determine whether there is convergence, differences, or some combination (Scammon, *et al.* 2013: 2189), a concurrent triangulation approach is used. Therefore, a content validity test was employed to test the sampling method for this study. The questionnaire was evaluated by a statistician before the pre-test was conducted.

4.7.1.2 Construct validity

The second type of validity used in this study is the construct validity. This concept describes not only the consistency of the instrument contents but also whether the instrument measured what it is intended for. For this purpose, the validity of an instrument, which is described as an establishment of a logical link between a research objective(s) and the questions used in an instrument, as well as the use of statistical analysis to demonstrate this link (Kumar 2013: 48), were ensured. The data collected from the MFIs via the questionnaires were compared with the variables in the objectives to establish correlation and consistency.

4.7.1.3 Face validity

This study employed this method to ensure the right selection of items were included in the index (Torrance 2012: 113). A statistician assisted with face validation before the questionnaires were distributed to the respondents. Each of the questions on the questionnaire was checked to ensure correct wording, content and its relation to the research questions, question length and the overall structure of the questionnaire.

4.7.2 Reliability

The term ‘reliability’ infers that the instruments used in the study (including the researcher) consistently or repeatedly obtain the same results (Leedy and Ormrod 2010; Kumar 2013: 48). The relationship between reliability and validity is intimated by Kumar (2013) as indicating that a test can be reliable but not valid but a test cannot be valid without being reliable. Reliability is, therefore, derived from validity. The study enhanced reliability by carefully piloting the questionnaire and then adopted a fairly large sample of 65 responds of the 83 MFIs in Accra.

Variables derived from test instruments are declared to be reliable only when they provide consistent and accurate responses over a repeated administration of the test. To ensure this, Torrance (2012: 113) postulates that respondent triangulation, achieved through preliminary contacts before administering survey instruments, is a way of achieving further reliability. Thus, producing consistent answers when the survey instrument is recast and re-administered, declares the reliability of the instrument. The results of Cronbach's Alpha test performed on the survey responses for a group of 10, 15 and 10 variables for regulations and their formulation, implementation, monitoring and supervision and implementation challenges respectively. The baseline criteria are for values to fall within the range of 0.70 to 0.99 or the result rejected (Larsson *et al.* 2015).

To ensure reliability, the instrument was edited and proofed by the supervisor, as well as a research assistant in another organisation and was pre-tested to ensure problems do not occur when the respondents answer the questions, or with the recording of the collected data. The pre-test ensures the validity and the likely reliability of the data. Preliminary analysis was also done to ensure that the questionnaire was properly checked and understood by the respondents; hence, possible errors were corrected prior to conducting the main survey. The qualitative portion of the questionnaire is purported to exhibit some consistency in the quantitative aspect. A follow-up interview was performed on a test basis to further ascertain its consistency.

The questionnaire was simply and precisely constructed, with consideration that it was not too lengthy, to ensure that respondents do not find it daunting to answer. The results were triangulated to ensure that complete, comparative and relevant information was gathered for the study (Nagar-Ron and Motzafi-Haller 2011) to minimise bias in the presentation (Denzin and Lincoln 2011) and to check for accuracy and reliability (Kumar 2013: 48).

4.8 Factor analysis

Why is factor analysis important?

Factor analysis is a statistical technique with data reduction as its main goal (Traynor and Andrews 2015: 479). A typical use of factor analysis is in survey research, where a researcher wishes to represent a number of questions with a small number of hypothetical factors (Traynor and Andrews 2015: 479; Levine 2016).

For this study, as part of the survey on "regulations and their formulation" (Appendix Page 356 to 359: Questionnaire), participants answered five separate questions regarding availability of regulations for MFIs, reflecting issues on existence of regulation, key elements of it and formulation procedures. Each question, by itself, would be an inadequate measure of what regulations MFIs are subject to, but together they may provide a better measure of this important variable.

Factor analysis was used to establish whether the five measures do, in fact, measure the same thing. If so, they can then be combined to create a new variable, a factor score variable that contains a score for each respondent on the factor. The combined variables forming a component are therefore assigned a name and discussed as real factors. In this case, the KMO and Barlett's Test were conducted on the Likert scale items to ascertain a measure of Sampling Adequacy and Sphericity, respectively. Thus, factor analysis is applied to establish the combined effect of the most relevant components of this research reduction (Traynor and Andrews 2015: 479).

4.9 Conclusion

This chapter explored how the data for this study were collected and analysed, while the research design and target population of 83 MFIs were also mentioned. The sampling method and reasons for the choice of the method used by this research were explained, with 65 in sample indicated, as well as the survey instrument, its nature and its distribution described. Data analysis was vividly described along with the tools for analysing data, reasons for their choice and forms of analysis being dovetailed. Reliability and validity, including pretesting, were appropriately captured in this chapter. The main aim of this chapter was to explain the conduct of the entire research, captioned as research methodology. The next chapter focuses on the presentation and analysis of survey data.

CHAPTER FIVE

STATEMENT OF FINDINGS, ANALYSIS AND INTERPRETATION OF PRIMARY DATA

5.1 Introduction

This chapter presents the results and interprets the responses obtained from the questionnaires in this study. The questionnaire was the primary tool used to collect data and was distributed to MFIs in Accra (Ghana). The data collected from the responses was analysed with SPSS version 24.0. The results will be presented as descriptive statistics, in the form of frequency graphs, cross tabulations and other figures, for the quantitative data collected. Relevant responses from the qualitative responses will also be interpreted. Inferential techniques include the use of correlations and chi square test values; and are interpreted using p-values.

5.2 The Sample

In total, 65 questionnaires were dispatched and 63 returned, giving a 96.9 percent response rate; 16.9 percent above the expected response based on the pilot survey, which yielded an 80 percent response. According to Fryrear (2015) and Donk *et al.* (2016), an 80 percent response rate is good to claim representativeness of response to the sample.

The survey was conducted among tier two MFIs registered with the Bank of Ghana in Accra. The interviewers visited the institutions in Accra (Table 1, Appendix B: page 362) and staff, such as branch managers, credit officers and operations managers of those MFIs knowledgeable in the activities of the responding institutions, were asked to complete the questionnaire.

The tier categories of MFIs that completed the questionnaire are illustrated below (Table 5.1).

Table 5.1: Category of MFI in Accra

Tier level of operation		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	1.6	1.7	1.7
	2	57	90.5	98.3	100.0
	Total	58	92.1	100.0	
Missing	System	5	7.9		
Total		63	100.0		

In Table 5.1, 1.7 percent of the respondents (one institution) is a tier 1 MFI which is regulated under the Banking Act. The inclusion of this MFI is an oversight by the interviewer, as this study focuses on tier 2 MFIs only. However, 57 of the valid respondents, constituting 98.3 percent of the respondents were tier 2 MFIs. Five (5) MFIs did not provide an answer to this question. This result is significant enough to be relied on for further analysis.

5.3 The Research Instrument

The research instrument consisted of 58 items of both quantitative and qualitative questions. The questionnaire was divided into three (3) sections that measured various themes (Table 5.2).

Table 5.2: Sectional description of the questionnaire

Section	Description
A	Basic details of the MFI
B	Close ended Questions categorised into three subthemes: regulations and their formulations; implementation, monitoring and supervision and implementation challenges.
C	Open ended Questions

A Likert Scale format was used for the closed-ended, quantitative questions. The respondents were asked to select their responses for the close-ended questions, whilst they provide short comments on the open-ended questions. This was done to ascertain consistency and also to obtain additional information on aspects of implementation related issues, from a broad perspective.

The questionnaires were personally administered (Appendix A). Adequate instructions were provided to enable respondents to complete the questionnaires. Nonetheless, the site visit illuminated important aspects of the open-ended questions that needed some explanations, while also offering administrators the chance to schedule a collection date with the respondents. The advantage of personal administration of the questionnaires was that it offered the administrators the opportunity to seek co-operation from the respondents and ensured the completed questionnaires were collected within a reasonable time.

The relationships between the variables of the study were tested using cross-tabulation. Each variable in the questionnaire was also tested for reliability.

5.4 Reliability Statistics

The two most important aspects of precision are reliability and validity. Reliability is computed by taking several measurements on the same subjects. A reliability coefficient of 0.70 or higher is considered as "acceptable" (Larsson *et al.* 2015). The table below reflects the Cronbach's alpha score for all the items that constituted the questionnaire.

Table 5.3: Cronbach's Alpha analysis

	Number of Items	Cronbach's Alpha
Regulations and their formulation	10 of 10	0.768
Implementation, monitoring and supervision	15 of 15	0.714
Implementation challenges	10 of 10	0.899

The reliability scores for all sections exceed the recommended Cronbach's alpha value. This indicates a degree of acceptable, consistent scoring for these sections of the research. All three categories: regulations and their formulations, implementation, monitoring and supervision and implementation challenges, record 0.768, 0.714 and 0.899 respectively (Table 5.3), which values exceeded the 0.70 reliability threshold for an exploratory research. The result is an indication that there is internal consistency and high correlation among most of the items in the questionnaire categories. It is also a test to prove that carrying the same survey on a larger sample is likely to yield similar results.

5.5 Factor Analysis

Factor analysis was conducted on group variables in the questionnaire under each study objective-related theme. Factor analysis is a statistical technique with the main goal that of data reduction. A typical use of factor analysis is in survey research, where a researcher wishes to represent a number of questions, with a small number of hypothetical factors (Traynor and Andrews 2015: 479).

Section B of this study questionnaire has three subthemes, with a minimum of five questions in a subtheme; based on the objectives of the study. Levine (2016) posits that each question, by itself, would be an inadequate measure of expected response towards each subtheme, but together they may provide a better measure of the subtheme and the related objective.

Factor analysis was used to establish whether the questions in each theme do, in fact, measure the same thing; if so, they can then be combined to create a new variable, a factor score variable that contains a score for each respondent on the theme (Traynor and Andrews 2015: 479).

The Principal Component technique was applied using a Rotation matrix method to ascertain the combined effect of the most relevant variables of this research and to put them into a common score.

The matrix tables are preceded by a summarised table that reflects the results of Kaiser-Meyer-Olkin (KMO) and Bartlett's Test. The requirement is that the Kaiser-Meyer-Olkin Measure of Sampling Adequacy should be greater than 0.50 and Bartlett's Test of Sphericity less than 0.05 (Levine 2016; Traynor and Andrews 2015: 479). In all instances, the conditions are satisfied, which allows for the factor analysis procedure.

Factor analysis is done only for the Likert scale items. Certain components are divided into finer components. This is explained in the rotated component matrix, as illustrated by the summarised result of this analysis (Table 5.4).

Table 5.4: KMO and Bartlett's Test

	Kaiser-Meyer-Olkin Measure of Sampling Adequacy	Bartlett's Test of Sphericity		
		Approx. Chi-Square	df	Sig.
Regulations and their formulation	0.713	245.084	45	0.000
Implementation, monitoring and supervision	0.697	543.789	105	0.000
Implementation challenges	0.857	433.169	45	0.000

All of the conditions are satisfied for factor analysis. That is, the Kaiser-Meyer-Olkin Measure of Sampling Adequacy value should be greater than 0.500 and the Bartlett's Test of Sphericity sig. Value should be less than 0.05. The values of each of the subthemes (Table 5.4) exceed the threshold value and with Sig. value of 0.000 respectively, indicating that the sampling and hence, the clustering of variables under each subtheme, is statistically significant in measuring the same thing.

Therefore, in this study, ‘regulations and their formulation’ has a 0.713 KMO measure of sampling adequacy. This means this subtheme and its component variables collectively have a positive impact on the MFIs performance. Furthermore, ‘implementation challenges’ indicate a 0.857 KMO result, to emphasise strong significance of the subtheme and its component variables to the study. However, ‘implementation, monitoring and supervision’ is at 0.697 of KMO value, which is not as strong when compared to the other two variables. This shows it to not have the same level of influence on MFIs operations as the other two variables do.

A detailed individual analysis of each component variable is presented, according to the subthemes stated above, in the Rotated Component Matrix tables in the next section.

5.6 Section Analysis

The tables and figures that follow represent the findings of the study. These and their interpretations are presented in order of the three sections of the survey instrument (Appendix A: Questionnaire).

5.6.1 Section A: Basic details of the MFI

Some elements of this analysis explain the characteristics of MFIs in Accra with literature providing evidence that MF is a social enterprise (Santos 2012: 335-341; Zahra *et al.* 2013). The analysis in this section will illustrate the findings on the basic data of the MFIs.

Table 5.5: Name of MFI repeated

	Frequency	Percent
Other MFIs	62	98.4
Multibility Microfinance	1	1.6
Total	63	100.0

All but one of the MFIs was Multibility. Table 5.5 illustrates the MFIs that completed the questionnaire. Apart from Multibility Microfinance Company Ltd., a second Multibility MFI also completed the questionnaire. Though the distinction between the two is not really clear it can be deduced that Multibility is not a branch to Multibility Microfinance Company Ltd.

5.6.1.1 Year operations began

This analysis presents the term of operation of the respondents, to ascertain the length of time the institutions have been operating for, as one of the basic characteristics of MFIs.

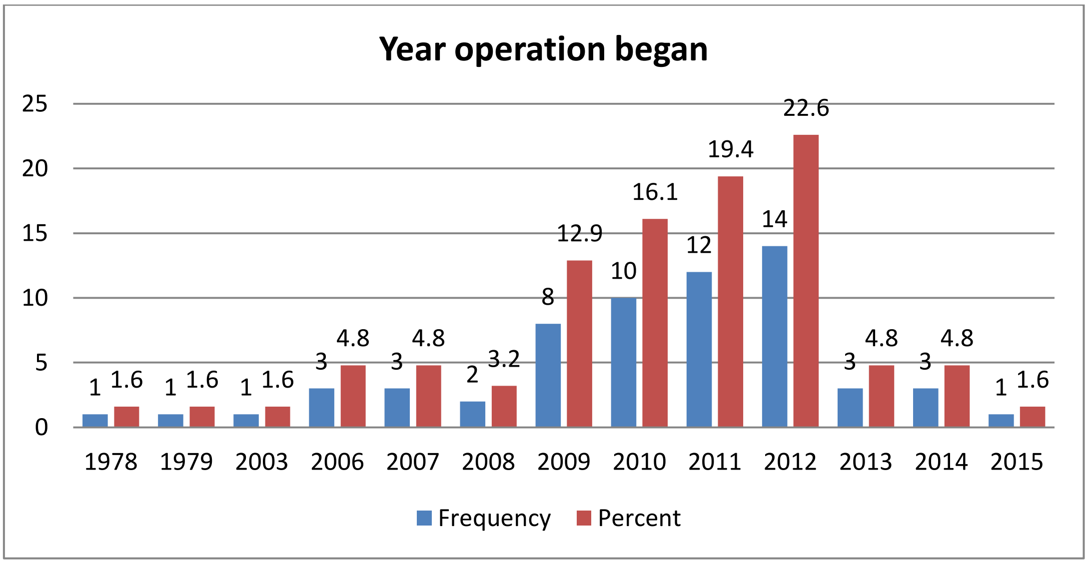


Figure 5.1: Length of time MFIs in operation

Figure 5.1 illustrates the active operating time-frame of 62 of the 63 respondents, who provided information on the year they began operation as institutions. These MFIs include both pre-liberalisation and post financial liberalisation MFIs. The institutions that launched their operations between 2009 and 2012 were 44, representing 71 percent of the valid respondents.

The two MFIs indicated in the table as having started operation in the late 1970s indicates the existence of the concept prior to the financial liberalisation and worldwide adoption of MF as poverty alleviation strategy (Aveh *et al.* 2013a).

MFIs in Ghana are categorised into tier levels, as is practiced in some other countries in the SSA. The cross-tabulation between "Legal form" and the "Tier level of operation" is tabled below (Table 5.6).

Table 5.6: A cross-tabulation of legal for and tier level

			Tier level of operation		Total
			1	2	
Legal form	NBFI	Count	1	55	56
		% within Tier level of operation	100.0%	98.2%	98.2%
	NGO	Count	0	1	1
		% within Tier level of operation	0.0%	1.8%	1.8%
Total		Count	1	56	57
		% within Tier level of operation	100.0%	100.0%	100.0%

Only one legal form (NBFI) was at level 1. In addition, only one level 2 legal form (NGO) was part of the sample. The rest (98.2 percent) were at tier level 2 and NBFI. The operating guidelines for banks and non-banking financial institutions (BoG 2011) place the MFIs in tier level 2, the money-lending institution in tier level 3, and 'Susu' collectors in tier level 4. However, the MFIs are also allowed to collect Susu from the public. The tier 2 institutions are therefore, largely licensed to also accept deposits from the public (BoG 2011). Legal form and tier categorisation thus determine the authorised activities. The authorised activities of these institutions are graphed in Figure 5.2.

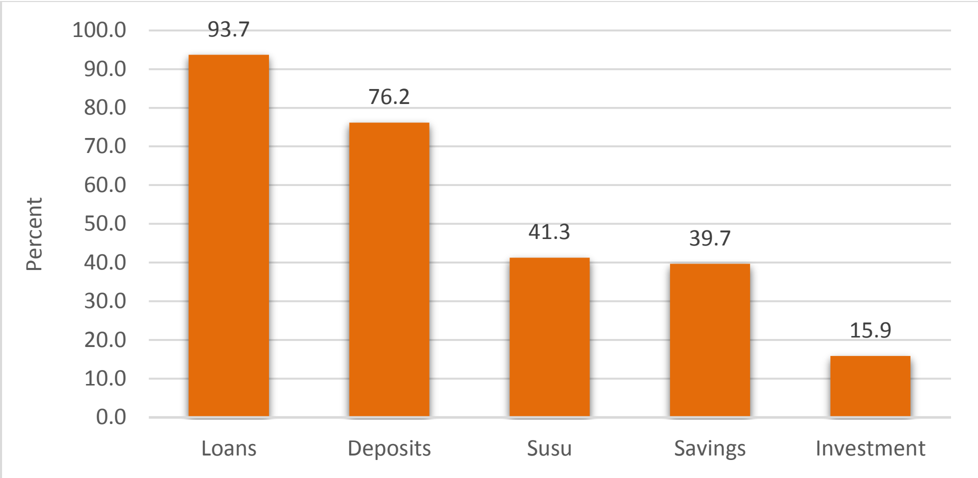


Figure 5.2: Authorised activity(ies)

The most predominant activity was Loans (93.7 percent), with approximately three-quarters (76.2 percent) of the respondents also involved with deposits. This confirms that the registered MFIs in Accra are authorised to engage in more than one activity (BoG 2011). Moreover, 15 percent were involved in investment, which is not a prescribed product for Tier 2 MFIs (Ogbolu *et al.* 2015).

The reporting period was analysed to confirm the rigour of reporting that MFIs are subjected to. The results are presented in the following table.

Table 5.7: Report for Year ended (day – month – year)

	Frequency	Percent
September	2	3.8
December	50	96.2
Total	52	100.0

The two common dates during which year-end reports are drawn are shown to be September (3.8 percent) but predominantly December (96.2 percent). This description accounts for the time within which the MFIs are requested, by regulation, to present their annual financial statement to the BoG for final assessment.

The descriptive statistics for the variables listed are tabled below (Table 5.8). The aim is to further emphasise the characteristics of MFIs in Accra.

Table 5.8: Statistical description of basic data

	N	Minimum	Maximum	Mean	Std. Deviation
Number of loan accounts	54	18	5000	1075.33	959.36
Number of currently active borrowers	42	13	4500	816.62	818.98
Number of savings accounts	56	30	16658	1589.07	2511.46
Number of currently voluntary savers	42	15	4328	681.90	935.31
Total number of members	31	4	4013	1889.10	1249.75
Total number of staff	62	6	215	29.84	36.64

All the variables listed (Table 5.8) have a high degree of dispersion (SD) from the mean. The highest SD=2511.46 is recorded by the number of saving accounts. A total of 56 MFIs interviewed indicated offering savings accounts; however, this dispersion can be attributed to the small size of the majority of MFIs in Accra. The same explanation can be offered for 'total number of members' and 'number of staff', which both recorded a mean of 1889.10 (SD = 1249.75) and 29.84 (SD = 36.64), respectively. The individual frequency tables and additional cross-tabulations are presented in Appendix B.

The sections that follow analyse the scoring patterns of the respondents per variable per section. Where applicable, levels of disagreement (negative statements) have been collapsed to show a single category of "Disagree". A similar procedure is followed for the levels of agreement (positive statements).

The results are first presented using summarised percentages for the variables that constitute each section. Results are then further analysed, according to the importance of the statements.

5.6.2 Section B: Quantitative data

This section deals with analysis of quantitative data based on the objectives of the study. The three cardinal objectives of the study are put into subthemes of "Regulation and their formulation", Implementation, monitoring and supervision" and "Implementation challenges". Each of these subthemes seeks to explore a particular objective of the study.

5.6.2.1 Regulations and their formulation

The analysis under this subtheme is linked to the first objective of the study, which seeks to ascertain the monitoring policies (FMPs) available for MFIs in Accra and how they are formulated.

The scoring patterns for this subtheme (Appendix A: Questionnaire) are summarised in Table 5.9. Discussions of the variables tabled are presented under Figures 5.3 to 5.7 in this section.

Table 5.9: Summary of pattern for variables under "Regulations and their formulation"

		Disagree		Neutral		Agree		Chi Square
		Count	Row N %	Count	Row N %	Count	Row N %	p-value
There are sufficiently clear financial regulations available for microfinance institutions.	B1	4	6.5%	7	11.3%	51	82.3%	0.000
Licensing	B2a	44	71.0%	2	3.2%	16	25.8%	0.000
Minimum capital requirement	B2b	44	71.0%	4	6.5%	14	22.6%	0.000
Capital adequacy	B2c	40	65.6%	6	9.8%	15	24.6%	0.000
Liquidity management	B2d	36	60.0%	11	18.3%	13	21.7%	0.000
Branching	B2e	38	62.3%	4	6.6%	19	31.1%	0.000
Supervision and compliance	B2f	31	52.5%	16	27.1%	12	20.3%	0.006

There is sufficient stakeholder participation in policy-making procedures.	B3	31	51.7%	13	21.7%	16	26.7%	0.010
There is adequate supplementary guideline or information on the relevant regulations.	B4	38	62.3%	5	8.2%	18	29.5%	0.000
The regulations are constantly reviewed to meet the current market needs of the MFIs.	B5	8	13.3%	14	23.3%	38	63.3%	0.000

A summary of the variables in the subtheme 'Regulation and their formulation' is illustrated (Table 5.9), with individual number of respondents and relative percentages indicated. The results are indicated by the highlighted p-values (p=0.000) for all items tested, except supervision and compliance, which yielded (p=0.006 and 0.010). These p-values may be atributed to either respondents misunderstanding those questions or having scored for fear of stating otherwise. Nonetheless, the indication that all these values are within the acceptable range (-0.05 – 0.05) shows that all the variables tested for regulation and its formulation are strongly significant and relevant to study objective one. The analysis considered each of the variables individually (Table 5.9).

5.6.2.2 MFI financial monitoring policies of Ghana and its formulation

This section discussed the finding relating to the above study objective based on question one to five. The main research question used to explore this objective was: What financial monitoring policies are used to regulate the MFIs in Accra (Ghana)? (Appendix A: Questionnaire on page 356 to 359). The rationales of the following survey questions, used to achieve this objective, were as follows:

- Question one was used to determine whether there is clear relevant regulation or financial monitoring policy for MFIs;
- Question two was employed to establish the coverage of the relevant FMPs;
- Question three identified the policy formulation procedure;

- Question four was utilised to discover whether there are supporting guidelines and education to facilitate implementation of the regulations identified in question one; and
- Question five was used to ascertain how relevant the regulations are to the needs of the MFIs.

The figures that follow give a detailed analysis of the findings.

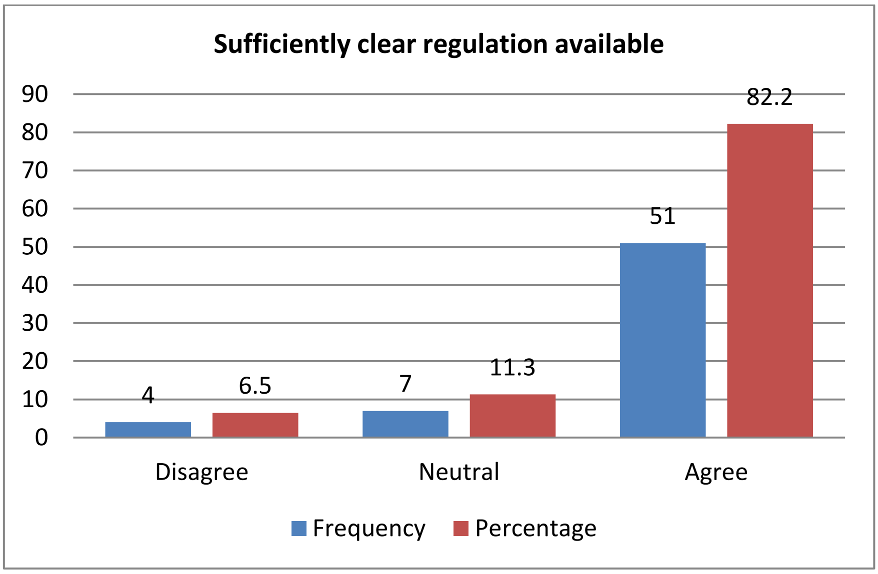


Figure 5.3: Availability of FMPs for MFIs

This analysis was made to ascertain the available regulations for monitoring of MFIs and the involvement of the MFIs and or their parent organisation in the formulation of the regulations that affect their operations. There is adequate regulation for MFIs in Ghana and in Accra specifically, with 82.2 percent of the respondents agreeing to the existence of operating rules for MFIs in Accra (Figure 5.3). As a result, it is obvious that some FMPs are used to regulate the activities of MFIs in Accra, as is the case in other jurisdictions indicated in the literature.

5.6.2.3 Key elements of the FMPs for MFIs in Accra

To ascertain the content and relevance of the available regulations and assess the ease of implementing the FMPs' six factors of: flexibility and friendliness of licensing; minimum capital requirement; capital adequacy; and liquidity management; as well as opening of a branch, and supervision and compliance were analysed (Appendix B: frequency tables). Figures 5.4.1 to 5.4.6 indicate the detailed analysis of the responses.

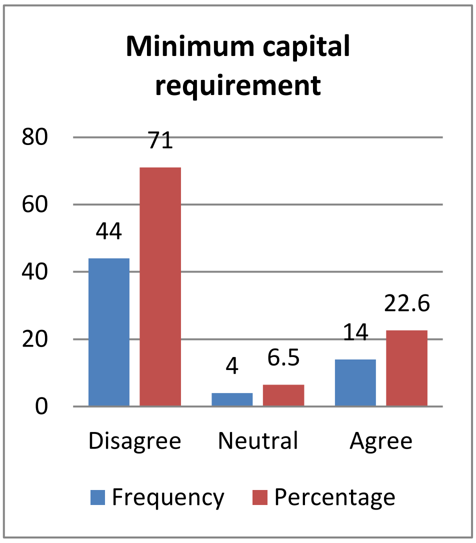


Figure 5.4: Capital requirement

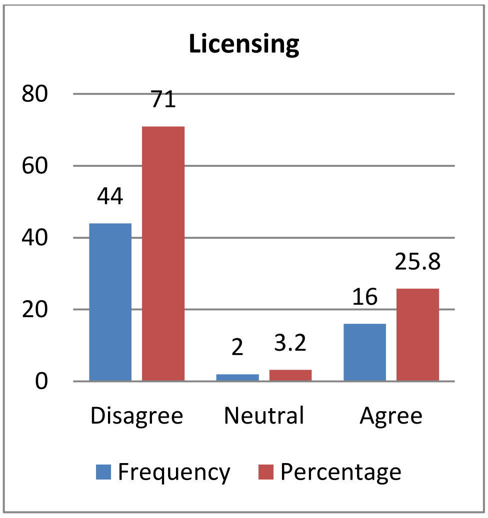


Figure 5.5: Licensing of MFIs

The findings on licensing and minimum capital requirement aspects of the FMP for MFIs are represented respectively in Figure 5.4 and 5.5. In both cases, 44 (71 percent) of the respondents disagreed on the flexibility of the FMPs to their operations, while 16 (25.8 percent) and 14 (22.6 percent) agreed with the flexibility of the licensing and minimum capital requirements, respectively. An insignificant number of two (3.2 percent) and four (6.5 percent) remained neutral in both cases.

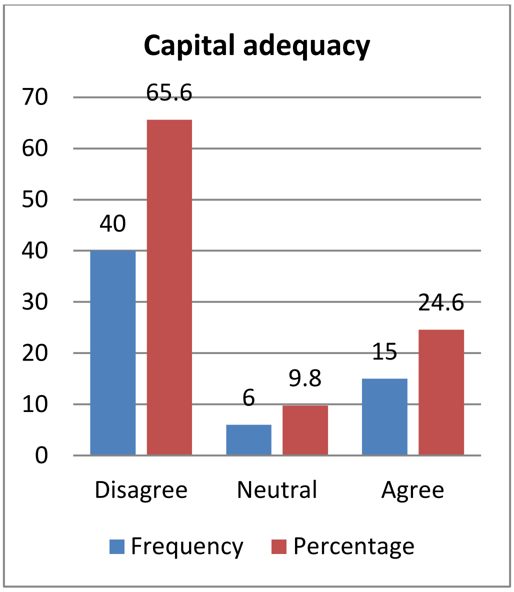


Figure 5.6: Capital Adequacy

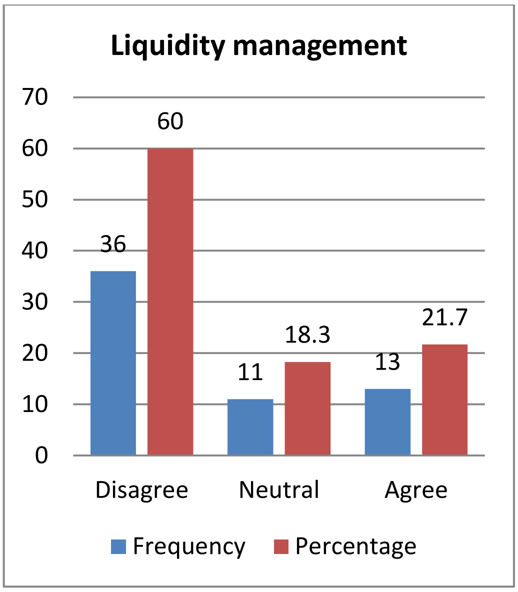


Figure 5.7: Liquidity management

The results, in terms of flexibility of the capital adequacy requirement are indicated in Figure 5.6, while Figure 5.7 shows liquidity ratio (management) demand for the MFIs.

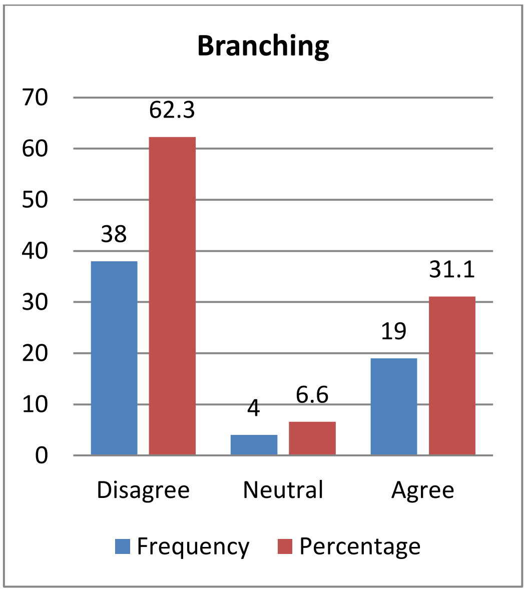


Figure 5.8: Opening branches

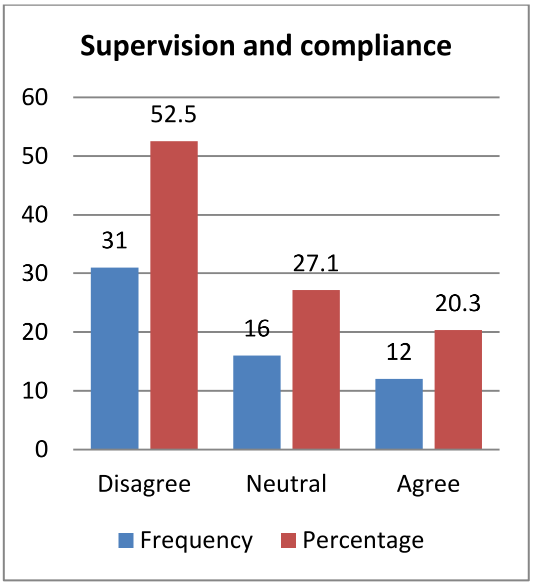


Figure 5.9: Supervision

Figures 5.8 and 5.9 illustrate the findings regarding MFIs opening additional branch(es) and supervision and compliance requirements of the BoG operating guidelines for NBFIs, of which the MFIs are dominant in Ghana and in Accra specifically (refer to legal form discussed above).

Based on the analysed results for Figures 5.6 to 5.7, 65.6 percent of the respondents disagreed on flexibility of capital adequacy, 60.0 percent on liquidity management, 62.3 percent for opening branches and 52.5 percent on supervision and compliance requirements. The number of respondents who remained neutral ranges from 3.2 percent to 27.1 percent across the six criteria; with 27.1 percent for supervision and compliance. This shows the majority of the MFIs find it difficult meeting the regulatory requirements (BoG 2011) of the Bank of Ghana and the allied institutional policy makers.

A Fisher's Exact Test result for these six items of findings, substantiating availability of regulation for MFIs, revealed licensing (X^2=44.258, df=2, p=0.000), minimum capital requirement (X^2=41.935, df=2, p=0.000), capital adequacy (X^2=30.525, df=2, p=0.000), liquidity management (X^2=19.300, df=2, p=0.000), branching (X^2=28.557, df=2, p=0.000) and (X^2=10.203, df=2, p=0.006) for supervision. This result affirms the expected response that there is some regulation for MFIs and thus proved that the findings are statistically significant and that the outcome is not due to chance (Appendix B: Expanded table). The implication is that Ghana, as asserted in the literature, has a prudentially adapted regulation for MF operations in Accra.

5.6.2.4 Stakeholder participation in policymaking for MFIs

May (2013; 2014) and other bottom-up theorists, criticise the centralised top-down policy-making strategy and vouched that policy formulation should include the implementers (Michael Lipsky's street-level bureaucrat proposition) at the bottom of the pyramid. For the purpose of assessing the formulation of FMPs for MFIs in Ghana, this study sought to analyse stakeholder engagement in crafting such policies; the results indicate low participation (Figures 5.10 and 5.11).

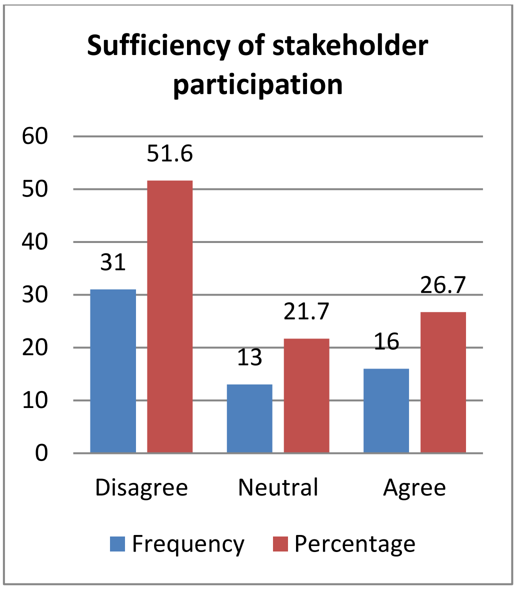


Figure 5.10: Stakeholder issues

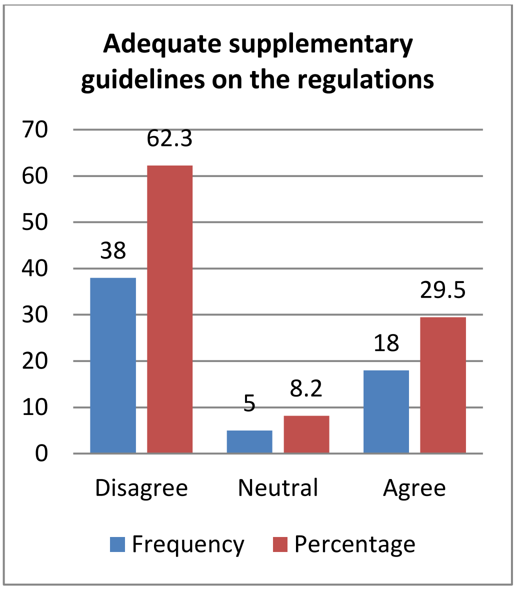


Figure 5.11: Supplementary guidelines

The results of the findings on the involvement of stakeholders (Figure 5.10), such as MFIs and other institutions in the policy formulation process are shown, while availability of supplementary information or guidelines that facilitate the application of the regulations by the FMIs is also illustrated. More than half of the respondents (31, representing 51.6 percent) indicated they have little participation in the formulation of FMPs for the MFIs, with 21.7 percent of the participants indicating neutral, while 26.7 percent (representing just over a quarter), indicated sufficient participation.

In Figure 5.11, 38 respondents are shown to disagree (62.3 percent) that supplementary materials are available to enhance understanding of the regulation requirements and hence, their application to the MFIs operations, with 29.5 percent of the respondents agreeing there is support information, while 8.2 percent remained neutral. This result indicates that implementation bottlenecks (Song *et al.* 2015; Kinde 2012: 2; Little 2012) associated with top-down policies are probable hitches in the implementation of FMP by MFIs in Accra.

According to Hoekstra *et al.* (2014: 8) policy implementation is successful should such policies be adopted and implementation environments created. The 73.3 percent disagreement indicates the authoritative nature and little or no communication for adoption of the FMPs for MFIs in Accra (Ghana). The survey results also prove sufficiently that many of the MFIs do not receive any further notification and or guidance to facilitate implementation of the relevant FMPs.

The Fisher's Exact test conducted on 'lack of stakeholder participation' and 'unavailability of supplementary guidelines', based on null hypothesis of uniformity of expected response, prove the significant sufficiency of these results at (X^2=9.300, df=2, p=0.010) and (X^2=27.180, df=2, p=0.000), respectively. These results indicarte that the regulations are not well as it lacks stakeholder input and support for the MFIs.

5.6.2.5 Review of the regulation to meet market demand of the MFIs

The results of the remaining variables of this objective are explored to establish whether the FMPs for MFIs are reviewed to meet their current market conditions (Figure 5.12).

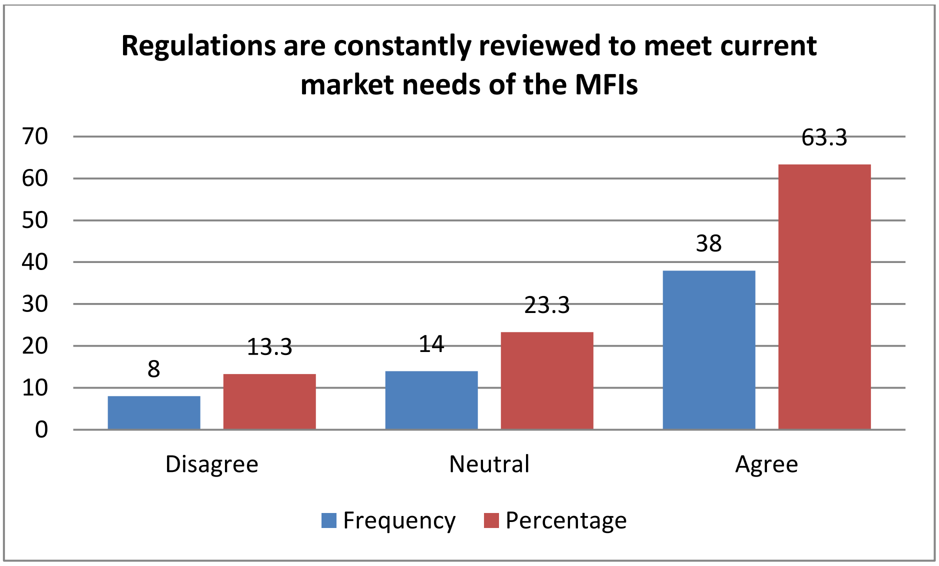


Figure 5.12: Review of regulations

The findings concerning relevance of regulations to the market needs of MFIs indicate 63.3 percent of the respondents in agreement, with 13.3 percent disagreeing, while 23.3 percent remained neutral (Fig. 5.12). Thus, a third of the respondents are skeptical as to how relevant the regulations are to their operational needs, while two-thirds attest to the appropriateness of the regulations.

Fisher's Exact Test (see Chi-square test table in the Appendix B) results prove the significance of this result (X^2=25.200, df=2, p=0.000), which indicates that the result is sufficiently and statistically relevant to the study and that regulations do exist for the MFIs in Ghana and Accra in particular..

With reference to Tables 5.10, 5.12 and 5.14:

- Principle component analysis was used as the extraction method, and the rotation method was Varimax with Kaiser Normalization. This is an orthogonal rotation method that minimises the number of variables that have high loadings on each factor. It simplifies the interpretation of the factors.
- Factor analysis/loading shows inter-correlations between variables.
- Items of questions that loaded similarly imply measurement along a similar factor.

An examination of the content of items loading at or above 0.5 (and using the higher or highest loading in instances where items cross-loaded at greater than this value) effectively measured along the various components.

It is noted that the variables of Section B are loaded along 2, 3 or 4 components. This means respondents identified different trends within the section. Within the section, the splits are colour coded.

The tabled representation of ‘Regulation and their formulation’ indicates a rotated matrix analysis of the variable components (Table 5.10). The results show consistency and prove that combining such factors will reveal the content of the available regulation for MFIs in (Accra) Ghana and how these FMPs are formulated. Moreover, the combination with other clusters of variables in component 2 and 3, will ascertain how these regulations are formulated. A detailed analysis of each of these component variables is presented (Table 5.10).

Table 5.10: Regulations and their formulation

Rotated Component Matrix[a]

	Component		
	1	**2**	**3**
There are sufficiently clear financial regulations available for microfinance institutions.	-0.197	0.015	0.634
Licensing	0.894	0.144	-0.240
Minimum capital requirement	0.932	0.048	-0.199
Capital adequacy	0.821	0.252	0.111
Liquidity management	0.620	0.450	0.196
Branching	0.658	0.412	-0.176
Supervision and compliance	0.316	0.559	0.290
There is sufficient stakeholder participation in policy-making procedures.	0.212	0.678	-0.210
There is adequate supplementary guideline or information on the relevant regulations.	-0.035	0.851	-0.237
The regulations are constantly reviewed to meet the current market needs of the MFIs.	-0.022	-0.154	0.783

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 6 iterations.

The component test conducted was to ascertain whether the regulations available for the MFIs in Accra are sufficiently clear to the MFIs. The findings presented (Table 5.10) show the responses categorised into three components. The results loaded in component 3 indicate 0.634 KMO value. Though this value is not too strong it does, however, indicate strong significance that sufficiency and clarity of FMPs is important in crafting the operations of the MFIs.

A further test conducted to establish the relevance of licensing, minimum capital requirement, capital adequacy, liquidity management, branching and supervision, as well as compliance as sub-variables, to determine areas covered by the regulations and their formulation, indicated three categories (Table 5.10).

All these sub-variables, (highlighted in yellow, Table 5.10) loaded together in component 1 of the three components.

- Responses regarding ‘licensing’ showed 0.894 KMO value. This reveals licensing as a significant variable in regulating the MFIs.
- ‘Minimum capital requirement’ is the most significant variable in the ‘regulations and their formulations’, with a KMO value of 0.932 in component 1. It implies that respondents consider this variable as core to their regulation and the most significant element that positively impacts MFI operations.
- The 0.821 value recorded by ‘capital adequacy’ loaded consistently with minimum capital in component 1 and has a strong significance to the research and MFIs performance. This variable is a function of minimum capital and hence, the positive proportionality between the two variables.
- However, the KMO values of other sub-variables, ‘liquidity management’ and ‘branching’ are at 0.620 and 0.658, respectively. Thus, these two sub-variables are not too strong when compared to the other three stated above and hence, do not exhibit a similar strong impact as do the other three.
- On the other hand, ‘supervision and compliance’ has a 0.559 KMO value, indicating that this sub-variable does have some significance to the key content of the regulations but of little relevance in determining the existence of FMPs for MFIs and their operations in Accra (Ghana).

In addition, a component test on ‘level of stakeholder participation in policy making’ and ‘sufficiency of supplementary guidelines’ on the FMPs loaded together in component 2. Respondent opinions converged in three categories in each case, with ‘stakeholder participation in policymaking’ at 0.678, indicating that stakeholder involvement in formulation of FMPs for MFIs will positively impact MF regulation. However, this KMO value is not very strong, when compared to the 0.851 KMO results regarding ‘sufficiency of supplementary guidelines’. The responses suggest a strong relevance of this variable to the understanding and implementation of the FMPs.

The last component test conducted on the variable ‘regulations and their formulation’ is on the statement whether the regulations are reviewed to meet the current market need of the MFIs (Table 5.10). The responses highlighted in blue in component 3 show a significant KMO value of 0.783. This means that constant review of the regulation is a perfect indication that regulations do exist for MFIs in Accra and confirmation that the reviews have a positive impact on the performance of MFIs.

The analysis of the combined effect of the sub-variables of ‘regulations and their formulation’ is that regulations do have implications for effective and efficient operations of MFIs in Accra (Addae-Korankye 2012: 138; Nzaro *et al.* 2013; Founanou and Ratsimalahelo 2016: 64).

5.6.2.6 Relationship of variables under this subtheme

This section measures the relationship(s) between the variables in ‘regulation and their formulation’. A bivariate correlation was performed on the (ordinal) data and analysed below. The results are found in the correlation table (Appendix B).

The correlation value between “Capital adequacy” and “There is sufficient stakeholder participation in policy-making procedures” is 0.448. This positive result shows a directly related proportionality between the two variables.

Respondents indicated that capital determines stakeholders participate in policy-making procedures; and vice versa. This assertion corresponds with minimum capital and tier categorisation. Subsequent correlation tests between “Capital adequacy” and “Branching”, “Tier categorisation” and “Compliance” reveal positive co-efficients of 0.624 (sig. 0.000), 0.290 (sig. 0.025) and 0.397 (0.002). These values, especially the co-efficient for “Branching” is an indication that for MFIs to operate a branch depends on the adequacy of capital. Furthermore, the values are statistically significant as they affect the operations of the MFIs because capital adequacy determine the MFIs ability to open branches..

Other relationship tests were between “Minimum capital (0.932, sig. 0.000) and “Branching”, which reveal a positive or direct proportionality implying that the more branches an MFI wants to operate; the more minimum capital it must amass. “Supervision and compliance” and “Stakeholder participation in policy making procedures” were also correlated, with this test indicating 0.343 (sig. 0.009). Respondents are therefore, indicating their level of compliance will have been better, if they were to have greater participation in the policies impacting their business. Further, relationship tests between variables of this subtheme and other subthemes, which were mostly highlighted, are presented in the Correlation table (Appendix B: pages 397 to 399). Except for “Liquidity management” and “Reporting requirement”, as well as “Liquidity management” and “Inadequate support regarding policy education and implementation from Apex associations”, which indicated -0.443 (sig. 0.000) and -0.368 (0.007), the rest of the variables relevant to the study were positively correlated.

These inverse relationships indicate that if the “Reporting requirements” were to be more flexible and that the FMIs receive adequate education on the FMPs as well as enough support for implementation from the respective oversight institutions, liquidity problems would have been minimal or less.

5.6.2.7 Summary on Regulation and their formulation subtheme

There are high levels of agreement in relation to variable one of this sub-theme: “Financial regulatory policies for MF operations and their formulation”. The factor analysis shows that the following six statements form a sub-theme: B2a – B2f, representing regulatory components. Respondents disagreed (average = 63.72%) that this subtheme is flexible and friendly. Stakeholder participation in policy-making procedures, though these policies are reviewed constantly as per the study findings, is lacking and hence, the MFIs were left to apply the regulations in ways they deem fit. However, the findings indicate that the subtheme and its component variables are significantly relevant for MFIs’ operations and hence, for this study .

5.6.3. Implementation, monitoring and supervision

This section is concerned with the findings regarding the implementation process and the facilitation of FMPs for MFIs in Accra. The second objective of the study is to establish how FMPs for MFIs are implemented and monitored. Implementation is the key concern of this research. Rycloft-Malone *et al.* (2013: 28) posit alignment of the implementation processes to the existing initiatives or market conditions, which May (2013: 3) regards as *context* that promotes evidence-informed practice. Research questionnaire subtheme two was used to explore this objective.

To obtain detailed information on the implementation of FMPs for MFIs in Ghana, especially in Accra, 10 survey questions based on the cardinal question for the objective, ‘What mechanisms are currently used to facilitate the implementation of the FMP for MFIs?’, were posed. Questions 6 to 15 (Appendix A) were therefore analysed in this section of the chapter.

The table below summarises the scoring patterns for this subtheme (Appendix A: Questionnaire, page 356 to 359). The discussion of the variables (Table 5.11) will be presented in Figures 5.13 to 5.22 of this section.

Table 5.11: Summary of pattern for variables under "Implementation, monitoring and supervision"

		Disagree		Neutral		Agree		Chi Square
		Count	Row N %	Count	Row N %	Count	Row N %	p-value
There is no co-operation or close dialogue between the police-making bodies and the individual institutions.	B6	19	31.7%	2	3.3%	39	65.0%	0.000
The tier categorisation system enhances operation and regulatory compliance.	B7	35	56.5%	14	22.6%	13	21.0%	0.001
There are microfinance support structures for: a. Funding	B8a	33	53.2%	20	32.3%	9	14.5%	0.001
b. Governance	B8b	36	58.1%	17	27.4%	9	14.5%	0.000
Compliance to operational guidelines is inadequate.	B9	16	25.8%	9	14.5%	37	59.7%	0.000
Always maintain adequate proportion of assets to satisfy the capital adequacy and liquidity management requirements.	B10	7	11.5%	3	4.9%	51	83.6%	0.000
There is strong internal monitoring system in the following areas: a. Well-balanced governance.	B11a	7	11.3%	10	16.1%	45	72.6%	0.000
b. Internal audit.	B11b	5	8.1%	10	16.1%	47	75.8%	0.000
c. Integrated risk management system governing all financial matters.	B11c	13	21.3%	13	21.3%	35	57.4%	0.000
Supervision of MFIs from external source is not effective enough: a. Association/Apex body	B12a	10	16.9%	2	3.4%	47	79.7%	0.000
b. MoFEP	B12b	12	19.0%	9	14.3%	42	66.7%	0.000
c. BoG	B12c	13	21.3%	2	3.3%	46	75.4%	0.000
Frequency of reporting and requirements reporting are rather rigid and do not create suitable environment for sustainability of the MFIs.	B13	12	19.0%	8	12.7%	43	68.3%	0.000
Offsite monitoring (submission of reports) and on-site monitoring (institution visits and assessments) are really not integrated.	B14	9	14.3%	11	17.5%	43	68.3%	0.000
Feedback on financial monitoring reports and references for future actions are rarely provided.	B15	14	22.6%	5	8.1%	43	69.4%	0.000

The summary of the variables in the subtheme *Implementation, monitoring and supervision* (Table 5.11) illustrates the individual number of respondents for each variable of this subtheme and their relative percentages. The results, except for "Tier categorisation" and "Funding", which yielded (p=0.001 and 0.001), recorded p-values (p=0.000) for all items tested. The indication that these values are within the acceptable significance criteria (-0.05 – 0.05) shows all the variables tested for 'Implementation, monitoring and supervision' are strongly significant and relevant to the second objective of the research.

The analysis that follows considers each of the variables summarised (Table 5.11) individually and illustrated by the respective figures.

5.6.3.1 The level of dialogue and cooperation among MFIs and regulators

According to Hoekstra *et al.* (2014: 8), policy adoption is essential for effective implementation and this involves communication and dosage administered, as well as the disposition of the MFIs. The findings on whether there is good dialogue and cooperation are presented in Figure 5.13.

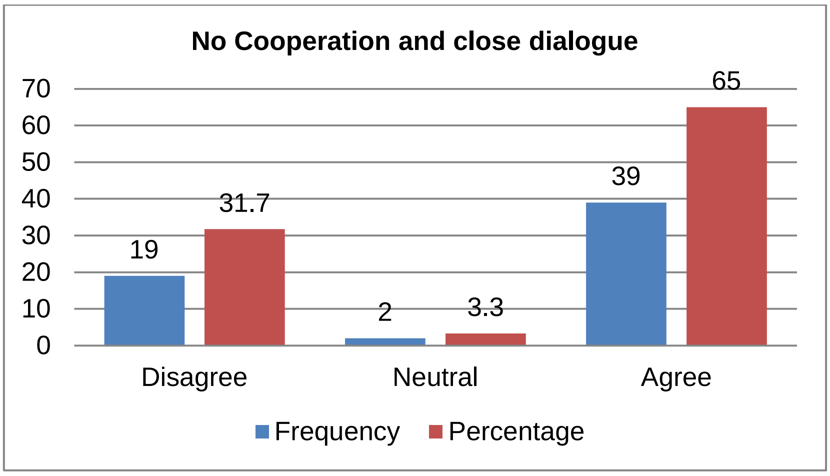


Figure 5.13: Dialogue and cooperation

The majority of respondents, (39 representing 65 percent) agreed to the statement that ‘There is no co-operation and close dialogue between the police-making bodies and the individual institutions.’ This implies policymaking is not sound enough to promote adequate understanding and implementation of the required regulations in the daily operations of the MFIs. The other third of the respondents (19, or 31.7 percent), however disagree that there is inadequate dialogue and cooperation, while two (3.3 percent) remained neutral.

Chi-square test conducted on this variable, based on the hypothesis of uniformity of responses to this question, reveals (X^2 = 34.300, df = 2, p=0.000) that the findings were different from the expected frequencies (Appendix B). In other words, this result was statistically significant to the study and explains that the process lacks adequate cooperation and proper dialogue among majority of the stakeholders.

5.6.3.2 Tier categorisation facilitates performance and compliance

The tier system for MF is implemented to enhance operations of the MF and also to define and sustain the financial capacity of MFIs. Ghana, as well as Kenya and other countries beyond SSA, apply this system to define the products and registrations requirements (BoG 2011; Ali 2015) of the MFIs. This analysis sought to prove the relevance of this categorisation to the operations of the MFIs; and its contribution to policy implementation and regulatory compliance. The results are presented in Figure 5.14.

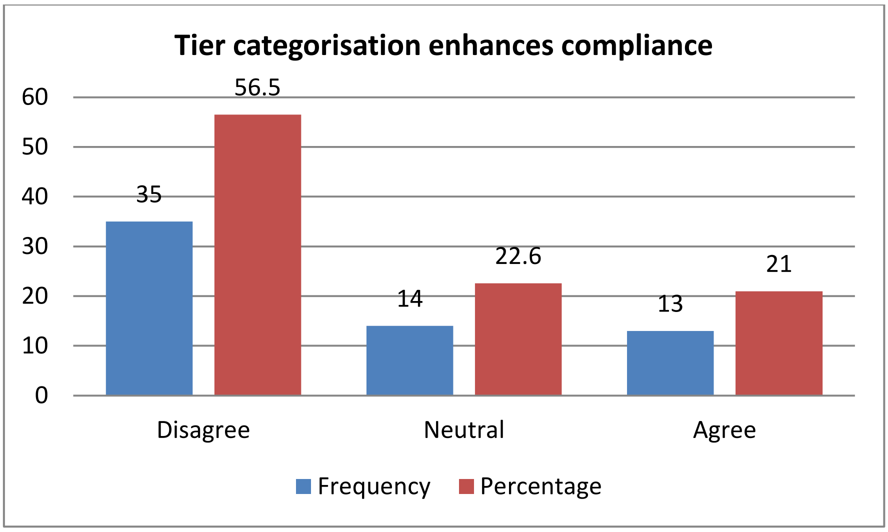


Figure 5.14: Tier categorisation system

The survey findings clearly explain the views of the respondents regarding the relevance of the tier system to MF operations. In Figure 5.14 majority of the respondents (25, comprising 56.5 percent) disagreed and abhorred the relevance of the tier based registration and operation of the MFIs, while 21 percent, representing 13 respondents, agreed with MFI operations based on tier categorisation and 22.6 percent remained neutral. The results are an indication that MFIs do not fully comply with tier categorisation in their operations; as a regulatory demand its application in obtaining a license might be effective. Nonetheless, with regard to MF product offerings, the analysed response explicitly shows monitoring policies are not widely implmented of MFIs in Accra.

The Chi-square analysis (X^2=14.935, df=2, p=0.001) for this variable indicates this result is statistically significant; an indication that the findings are not due to chance and that monitoring policies policies are not widely implemented.

5.6.3.3 MF support structures for funding and governance

The objective of establishing the Ghana Association of Microfinance Companies (GAMC) was to enhance capacity building for all registered MFIs in the sector and to promote an enabling environment for sector sustenance and growth (Microcapital 2016). Song *et al.* (2015) and Puyvelde *et al.* (2012) indicate the need for some institutional structures to promote policy implementation. Hoekstra *et al.* (2014: 8) clearly show an implementation environment is imperative for effective implementation of policy for MFIs. Such a system of authoritative norms, rules and practices (Chancharat *et al.* 2012) are thus cardinal to realising a sound system of implementation. The analysed results are captured in Figures 5.15 and 5.16 (Appendix B: Tables).

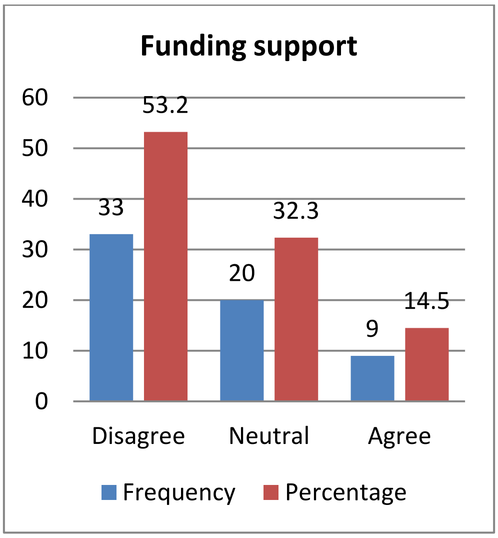


Figure 5.15 Funding

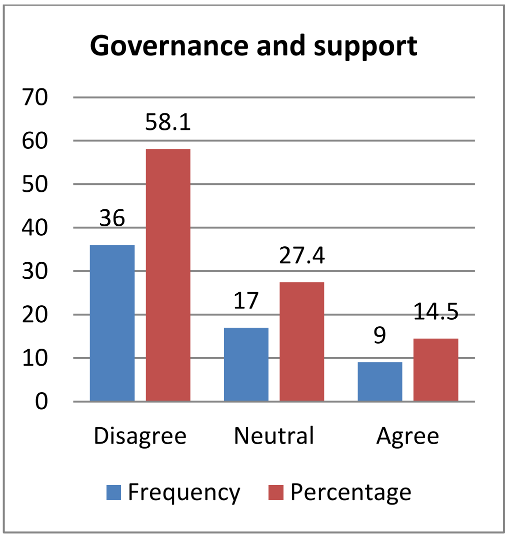


Figure 5.16: Governance & support

The results as to whether MFIs in Accra receive funding support from government or any governmental institutions are illustrated (Figure 5.15), along with the results of support regarding governance of the MFIs (Figure 5.16). In both cases, disagreement was indicated by more than half of the total responses, with 53.2 percent (representing 33 respondents) disagreed, and while 32.3 percent remained neutral. Similarly, 58.1 percent of the respondents disagreed on any governance support structure for MFIs, 27.4 percent were neutral and 14.5 percent agree with the statement (Figure 5.10.2).

A Chi-square test based on Fisher's exact test was conducted, based on the hypothesis that there will be uniformity in responses. The results (X^2=13.968, df=2, p=0.001) for 'funding support' and (X^2=18.613, df=2, p=0.000) for 'governance' indicate a significant difference from the frequencies. In other words, the results are an indication of statistical significance of its substance.

This further confirms that the FMPs for the MFIs were not widely implemented in Accra; hence implementation problems exist in the MF sector in Accra.

5.6.3.4 Adequacy of compliance to operating guidelines

Compliance was assessed as an element of effective implementation of the FMPs for the MFIs. According to Hoekstra *et al.* (2014: 8), a successful policy must receive the endorsement of the MFIs through adoption, and with an enabling implementation environment, compliance and sound implementation can be achieved. The result of this assessment is presented in Figure 5.17.

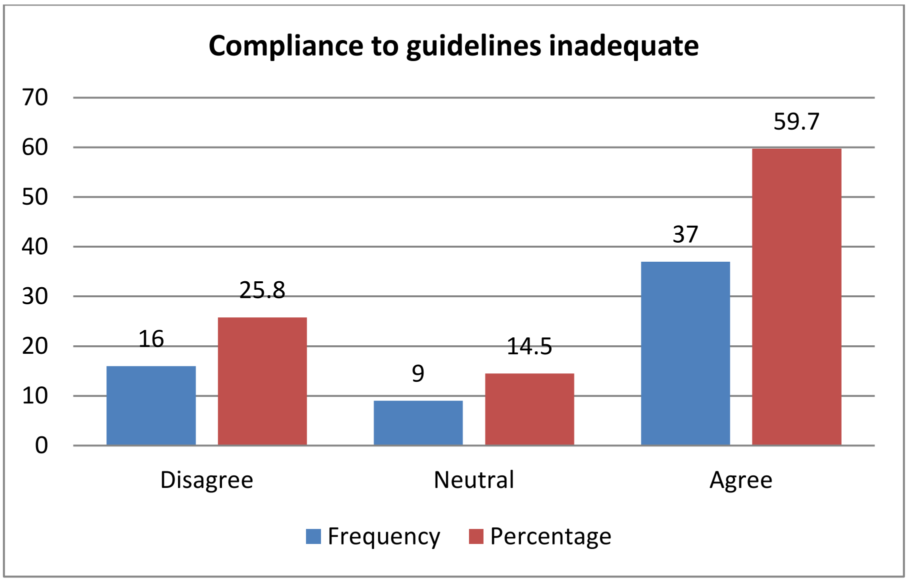


Figure 5.17: Adequacy of compliance to guidelines

The analysis presented (Figure 5.17) portrays inadequate compliance. Whilst 37 respondents (59.7 percent) agreed that compliance is not strong, 25 others (16 disagreed and nine indicated neutral, comprising 40.3 percent) indicated a good level of compliance or remained neutral, respectively. This result proves that MF is a social enterprise, characterised by infractions of guidelines (Cieslik *et al.* 2015). Thus, MFIs in Accra do not fully comply and embed the operating guidelines in their operations.

To assess the statistical significance of this result, the Fisher's Chi-square of Exact Test was conducted and the outcome (X^2=20.548, df=2, p=0.000) indicates the substance of the responses; as compared to the frequencies obtained. That is the implementation of the FMPs is not widely engaged.

5.6.3.5 Compliance with capital adequacy and liquidity requirements

The operating guidelines for MFIs stipulate the percentage liquid reserve (BoG 2011; 2012) institutions must maintain, as well as the minimum capital for a sound financial base for their operation. The survey results indicate a high level of compliance with this requirement. Figure 5.18 illustrates the findings.

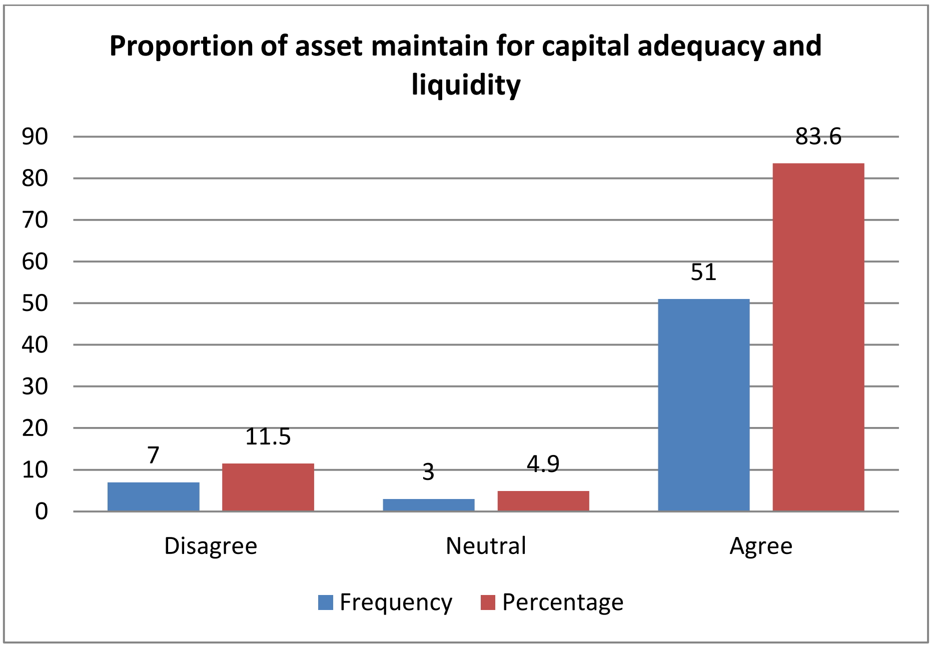


Figure 5.18: Compliance to capital adequacy ratio

The findings obtained on the level of compliance, in regards to maintenance of adequacy capital and efficient liquidity management, are illustrated (Figure 5.18). A good number of the respondents, 83.6 percent representing 51 respondents, affirmed their compliances, 4.9 percent were neutral, whilst 11.5% (seven respondents) disagreed. Perhaps the question was misunderstood; however, this positive response indicates some financial discipline being exhibited.

Fisher's chi-square of exact test was conducted to ascertain whether the MFIs do indeed maintain capital adequacy and manage their liquidity. The test result (X^2=69.770, df=2, p=0.000) affirmed the expected frequency and proved the findings to be statistically significant and that the outcome was not due to chance.

5.6.3.6 Evaluating the internal monitoring system

The BoD has the task of maintaining control and promoting good governance of the MFIs. Ojo (2013) identifies that board composition has repercussions for promoting good governance in MFIs. The study sought to examine how effective the management and board of the MFIs in Accra internally monitor their operations. The figures below illustrate the survey findings.

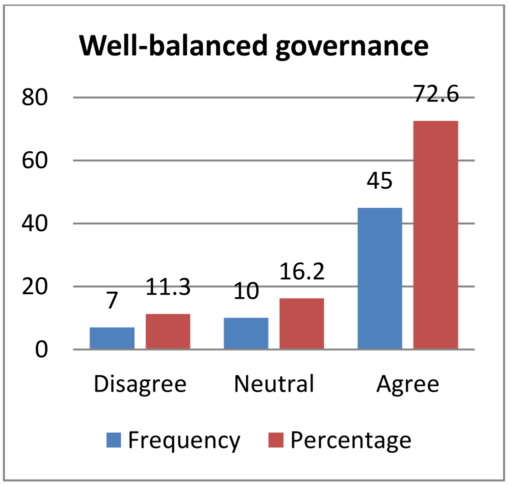


Figure 5.19: Governance

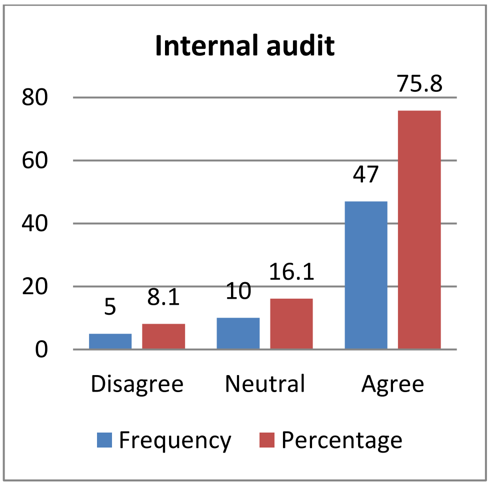


Figure 5.20: Internal audit

Figure 5.19 shows whether the MFIs in Accra have a well-composed governance structure. The findings illustrate that 72.6 percent agreed to having ‘good governance structure’ in place, 11.3 percent disagreed on describing their governance structure as well-balanced, while 16.2 percent did not answer this question. On the other hand, Figure 5.20 illustrates the results for effective ‘internal audit’ for MFIs. The results indicate 75.8 percent maintaining an internal audit system is not effective enough, 16.1 percent were neutral as to whether internal audit exists, and 8.1 percent disagreed on their internal audit not being effective; in other words affirmed that their internal control system is effective enough.

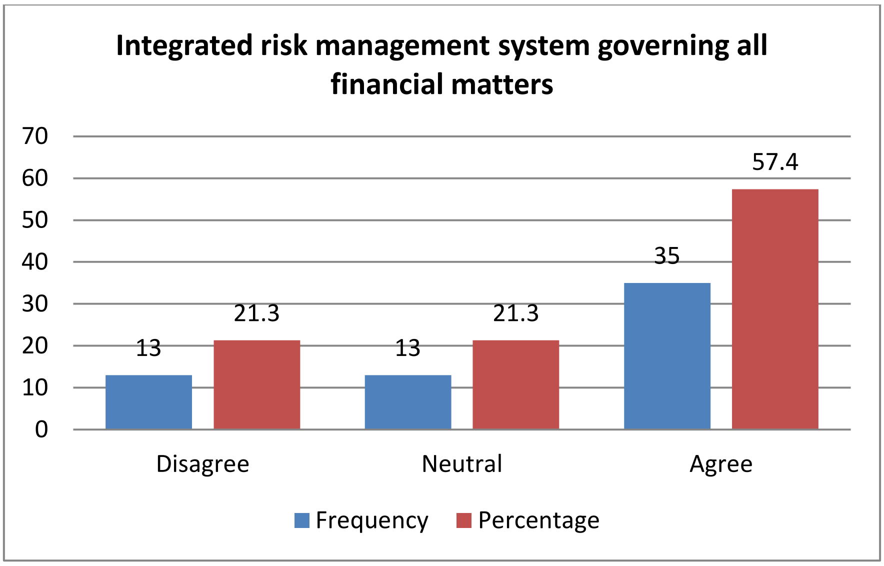


Figure 5.21: Risk management

The results as to whether MFIs maintain an integrated system of control that governs all financial transactions of the institution is displayed in Figure 5.21. The responses were 57.4 percent in agreement to establishing such an integrated monitoring system, whilst there was a split of 21.3 percent for both respondents who disagreed and those who were neutral.

The Chi-square analysis to prove the significance of these variables in the sub-theme was positive (X^2=43.194, df=2, p=0.000) for 'balanced governance', (X^2=50.935, df=2, p=0.000), 'internal audit' and (X^2=15.869, df=2, p=0.000) for 'risk management'. These outcomes were not different from the expected frequencies. These show the results were statistically significant and also prove the substance of the results.

5.6.3.7 Effectiveness of external supervision

Monitoring and supervision, according to Hoekstra *et al.* (2014: 8), will reveal whether policies are well implemented, the problems encountered and the need for review of the policies. The question assessed the effectiveness of supervision of the MFIs by the GAMC, MoFEP and BoG in Accra. The findings are shown in Figures 5.22, 5.23 and 5.24.

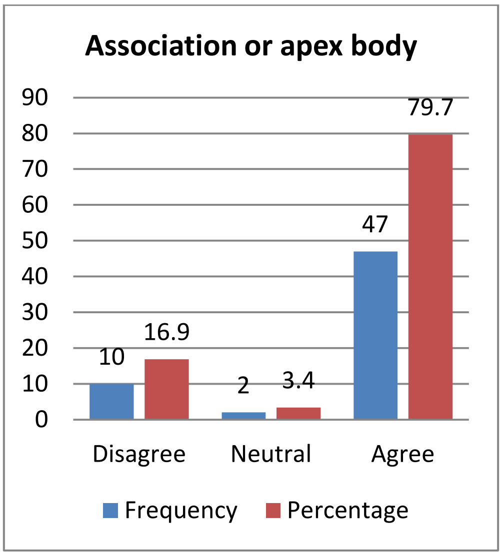


Figure 5.22: GAMC

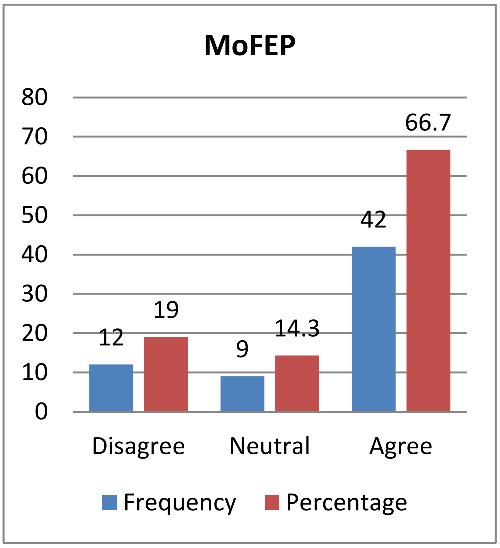


Figure 5.23: MoFEP

Figures 5.22 and 5.23 show the result of the responses obtained from the survey on supervision by MF regulating institutions (Appendix B: Frequency tables). On the part of the MF parent association, the GAMC, the analysed results indicate an alarming 79.7 percent of the respondents citing the supervision of the GAMC as not effective enough, whilst 20.3 percent affirmed some supervision from the parent association.

Similar results were obtained for MoFEP, which has roles to play in maintaining operational discipline in the MF sector. A 66.7 percent of the valid responses indicated the poor role of the MoFEP in supervising the MFIs, whilst 19.0 percent indicated some level of supervision and the remaining 14.3 percent remained neutral. The responses of the nine participants who remained neutral might have stemmed from the fact that they are not aware of any role of the MoFEP in their operations. These outcome analyses did not vary from the participants' expression about the BoG's supervision as being not effective enough (Figure 5.24). A chi-square test to further prove the significance of these sub-variables is presented.

Fisher's chi-square of exact tests was conducted to ascertain the statistical relevance of the results. The outcomes for GAMC (X^2=58.610, df=2, p=0.000) and for MoFEP (X^2=31.714, df=2, p=0.000) reveal the substance of the sub-items and prove that the results were not due to chance. It further confirms that implementation of the FMPs is not effective enough to ensure adequate compliance.

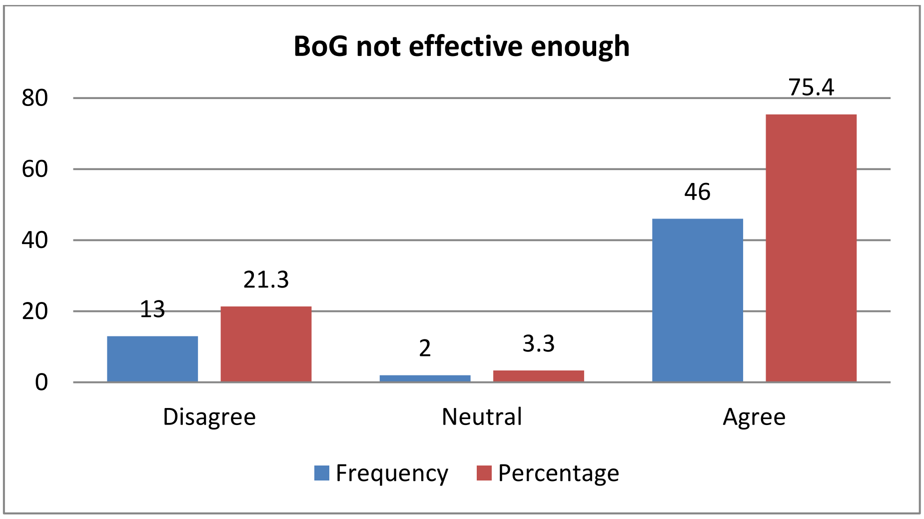


Figure 5.24: BoG supervision is not effective enough

The majority (75.4 percent) of the respondents disagreed (Figure 5.24) with the effectiveness of the BoG in promoting the cause of the MFIs through supervision, whilst 21.3 percent of the responses affirmed some supervision from the BoG and 3.3 percent offered no answer to this question.

The significance of this result was tested. The Chi-square analysis conducted on the external supervision offered by the BoG, based on the expected uniformity of the responses, indicated (X^2=51.574, df=2, p=0.000). These values confirm the statistical significance and the substance of the results obtained from the respondents.

5.6.3.8 Effectiveness and rigour of reporting requirements

As stated earlier, reporting and feedback provide the policymaker with valid information on the implementation of existing policies. Reporting is to ensure that MFIs are operating within the operating guidelines; it is also to promote (Ojo 2013) sound financial practices and the sustainability of MFIs in Ghana, Accra in particular.

While several factors, including management quality and experience (Addae-Korankye 2012: 135 and Ojo 2013), were indicated by literature, the social characteristics of MFIs are also cardinal in the responses obtained. These include size, age and staff strength of the MFIs in Accra.

The survey to ascertain the implementation environment, which according to Hoekstra *et al.* (2014: 8) includes regulatory outcomes (discussed in the literature), was analysed and results are presented (Figure 5.25).

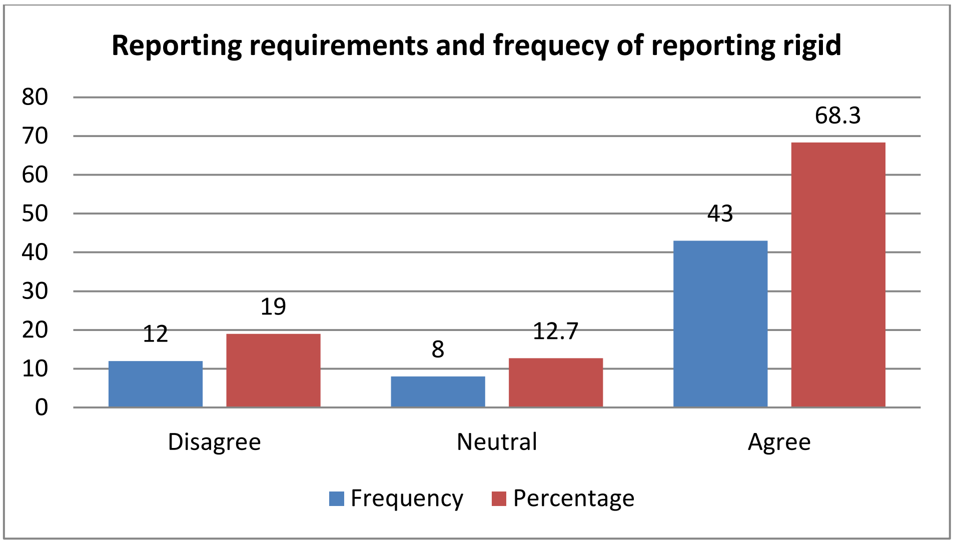


Figure 5.25: Reporting

The responses obtained and analysed (Figure 5.25) indicate a high level of displeasure regarding the frequency of reporting by MFIs. A total of 43 respondents, representing 68.3 percent, indicated that reporting requirements are not creating a sound, sustainable environment for MF sustainability. Furthermore, 12.7 percent remained neutral, while 19.0 percent disagreed with the statement that 'Reporting requirements and frequency of reporting are rather rigid and do not create suitable environment for sustainability of the MFIs.'

This displeasure could be associated with some other factors, notably lack of resources and management quality (Ojo 2013) and other characteristics discussed in the literature. However, the substance of this result was not due to chance, as the Fisher's Chi-square of exact test conducted (X^2=34.952, df=2, p=0.000) indicates that the outcome is statistically significant. This outcome therefore is a further proof that the FMPs are not widely implemented.

5.6.3.9 Integration of offsite and onsite visit reports

According to Hoekstra *et al.* (2014: 8) feedback will facilitate review of a policy. It is the outcome of implementing the existing policies and such outcome or reports need to be evaluated, in order to assess the effectiveness of implementation and the realisation of the intended objectives of formulating the FMPs for MFIs. 68 per cent of the respondents agreed on the statement of offsite monitoring and onsite visit reports not integrated. Earlier analysis indicated poor supervision from the BoG and the GAMC, implying the sector lacks adequate onsite information, if any, and a there is a gross lack of industry data (Mago 2013 and Ojo 2013: 3), which is discussed in the literature. The analysed survey results are shown in Figure 5.26 (Appendix B: Frequency table).

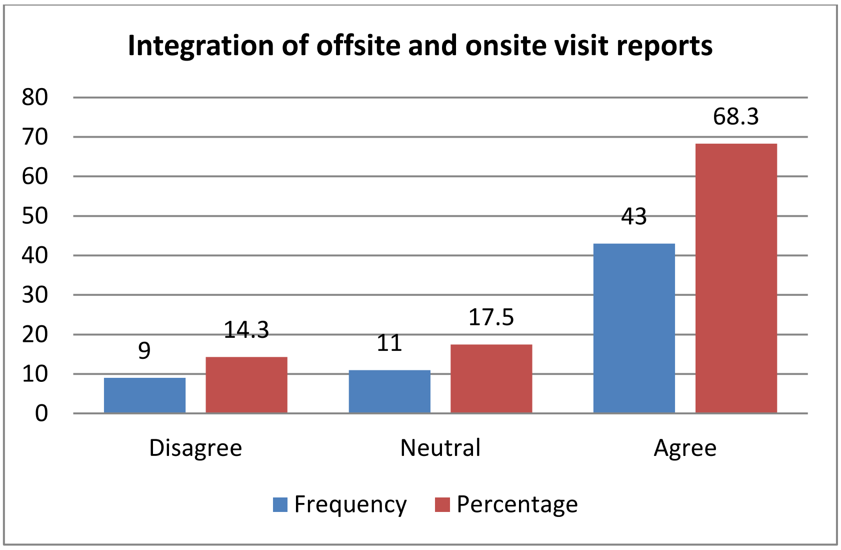


Figure 5.26: Integration of offsite and onsite visit reports

The results as to whether onsite and offsite reporting feedbacks are integrated are illustrated (Figure 5.26), showing 68.3 percent of the survey outcome, representing 43 of the 63 respondents, indicated that onsite supervision, which is seldom carried out, is not reflected in the annual reports from the BoG. Though 14.3 percent indicated some integration of such monitoring and supervision reports, this is insignificant as 11 respondents, representing 17.5 percent of the total survey findings who remain neutral, exceeds any assertion of integration of supervision outcomes.

This is confirmed by the Fisher's Chi-square of exact test results on this variable, with a statistical outcome (X^2=34.667, df=2, p=0.000) that enhances the survey findings and indicates the true substance of the results obtained, as significant (Appendix B: Chi-square analysis table).

5.6.3.10 Provision of feedback on financial monitoring

Congruent to the issue of supervision reports, integration is fedback. Evaluation of the effectiveness of the implementation process depends on the amount of data available to the BoG. In similar vein, review and control of the implementation process from the MFIs point of view, depends on the performance reports from the BoG. Rycloft-Malone *et al.* (2013: 7), Hallsworth and Rutter (2011: 18) and Cairney (2012) summarise that policy formulation occurs in stages culminating into policy cycles.

Feedback therefore, sets the stage for communicating the ideals of the implementation process and interactions (Geyer 2012) that can produce more ideas. It will also draw cooperation from the BoG and the MFIs to ensure such interactions. Literature indicates a policy cycle (Smith and Katikiredi 2012) of formulation-implementation-reformulation (May 2013). Thus, reformulation calls for adequate feedback into the implementation process. The analysis of the survey results is detailed in Figure 5.27.

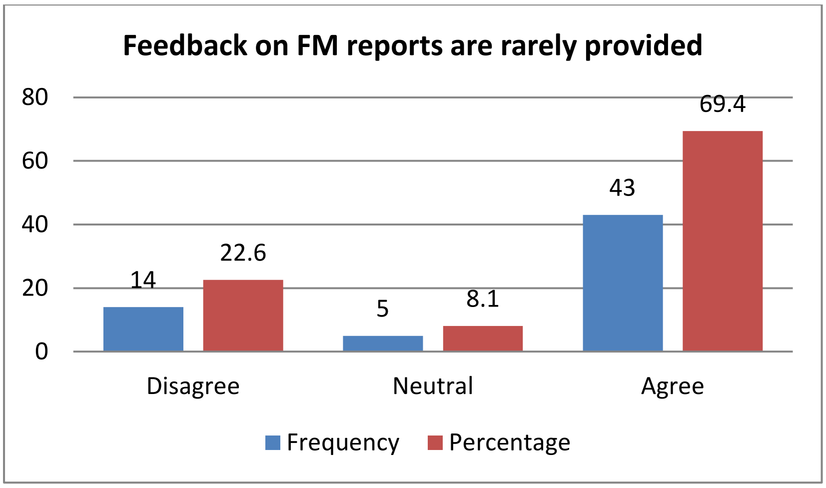


Figure 5.27: Performance feedback

The responses (Figure 5.27) illustrate that 43 respondents, representing 69.4 percent of the survey responses, indicated that the BoG rarely provides any feedback to the MFIs. This confirms the lopsided approach in the decision of formulating operating guidelines for MFIs in Ghana. Though five respondents, representing 8.1 percent were neutral it can be concluded that a quarter of the respondents agreed to receiving feedback from the BoG. As stated in the literature, it can be ascertained that the BoG is actually selective in responding to the MFIs due to its lack of capacity (both human and physical resources) (Wampah 2012) an already cumbersome responsibility that has disabled it from responding properly to the MF sector.

A further quick Fisher's exact test of the significance of this variable, as against the base uniform responses expected, has the Chi-square test (X^2=38.161, df=2, p=0.000) reveal that the outcome is statistically relevant.

The component table (Table 5.12) representing 'Implementation, monitoring and supervision' indicates a rotated matrix analysis of the components. This four-component result shows consistency and proves that combining such factors will reveal how FMPs for MFIs in Accra are implemented, as well as how the MFIs are monitored and supervised. A combination of the clusters will ascertain the effectiveness of implementing the FMPs by the MFIs and the supervision thereof by the MFIs.

Table 5.12: Implementation, monitoring and supervision

Rotated Component Matrix[a]

	Component			
	1	2	3	4
There is no co-operation and close dialogue between the police-making bodies and the individual institutions.	0.740	0.069	-0.020	-0.408
The tier categorisation system enhances service delivery and regulatory compliance.	0.741	-0.045	0.205	0.283
Funding	0.046	-0.034	0.913	0.009
Governance	-0.022	0.112	0.913	0.016
Compliance to operational guidelines is inadequate.	-0.034	0.036	-0.014	0.858
Always maintain adequate proportion of assets to satisfy the capital adequacy and liquidity management requirements.	0.206	0.781	0.250	0.129
Well-balanced governance.	0.097	0.898	-0.069	-0.032
Internal audit.	-0.015	0.874	0.030	-0.032
Integrated risk management system governing all financial matters.	-0.182	0.840	-0.057	-0.064
Association or Apex body	0.830	-0.196	0.089	0.260
MoFEP	0.701	-0.199	0.322	0.422
BoG	0.864	-0.173	0.155	0.253
Reporting requirements and frequency of reporting are rather rigid and do not create suitable environment for sustainability of the MFIs.	0.655	0.396	-0.171	-0.145
Offsite monitoring (submission of reports) and on-site monitoring (institution visits and assessments) are really not integrated.	0.816	0.075	-0.108	-0.068
Feedback on financial monitoring reports and references for future actions are rarely provided.	0.747	0.179	0.188	0.002

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

The Rotated component matrix (Table 5.12) tested the relevance of cooperation and dialogue in implementing FMPs for MFIs. This variable of the research, based on the responses, exhibits four components. The variable (highlighted in component 1) has 0.740 KMO, indicating that absence of dialogue and supervision is a significant factor contributing to poor implementation of guidelines for MFIs. This means communication and cooperation, needed to promote implementation of the regulation, is woefully lacking (May 2013).

Regarding whether the tier categorisation does enhance MF service delivery and regulatory compliance, the component test conducted reveals a strong KMO value of 0.741 in component 1 (Table 5.12). This result compared positively with the earlier variable to indicate its level of impact in determining ‘implementation, monitoring and supervision’ of the FMPS for MFIs in Accra. It might be that cooperation and clarity of the regulation as explained is unclear on this variable.

In assessing whether there are support structures available for the MFIs, in terms of funding and governance, the component test was conducted on these two variables loaded together in component 3, with the same KMO value at 0.913. This indicates structures for funding and governance have a strong significance in the study; absence of these variables will highly influence the implementation of the FMPs and hence, monitoring of the MFIs.

Where the adequacy of compliance to the available regulations are concerned, the results presented in the component matrix (Table 5.12) have a 0.858 KMO value, indicating inadequacy of compliance to the overall implementation of the guidelines for MFIs could strongly impact their performance. The variable can be directly linked to poor stakeholder involvement, lack of dialogue and lack of supplementary guidelines to aid compliance, discussed earlier in the sub-section. The other variable tested, is on the statement whether the MFIs maintain adequate asset for capital adequacy and liquidity management. The KMO results loaded in component 2 at 0.781, depicts strong significance of this response of agreement, which implies that this variable does influence the daily operational capacity of the MFIs.

Further analysis (Table 5.12) shows the component test outcomes for the question regarding the MFIs maintenance of a monitoring system is strong enough to ensure well-balanced governance, internal audit and risk management systems. The respondents were grouped into four components, with the results of the three sub-variables showing positive significance loading consistently in component 2.

The MFIs are shown to maintain well-balanced governance at 0.898 KMO (Table 5.12), with 0.874 for MFIs that maintain a strong internal audit, while integrated risk management systems yielded 0.840. These KMO values for the three variables have a high impact on implementation and are essential ingredients for financial operations of the MFIs. In substance, all the three sub-variables indicate strong significance to the maintaining of a strong internal monitoring system.

The level of supervision from the apex body (GAMC), MoFEP and BoG was also tested. The component analysis presented (Table 5.13) regarding the statement that external supervision is not effective enough from the perspective of the Apex body (GAMC), MoFEP and BoG, has the KMO values at 0.830 for Apex body, 0.701 for MoFEP and 0.864 for BoG. These individual values indicate that supervision from these institutions has a strong influence on regulatory compliance and implementation.

However, evident from these responses indicate that the regulatory institutions have no close oversight of the MFIs, in terms of supervision or otherwise, such supervision is not effective enough and therefore, less impacting implementation of the FMPs.

The remaining component analysis on the subtheme ‘implementation, monitoring and supervision’, deals with the ‘robustness of reporting requirements’, ‘integration of offsite and onsite reports’ and ‘provision of feedback’ on the submission to the MFIs. The KMO values of these three variables are clustered in the components in Table 5.13. While the value of ‘reporting requirements and their frequency’ are rigid and ‘not promoting suitable environment’ is at 0.655 KMO, ‘reports not being integrated’ is at

0.816 KMO value, with ‘feedback on financial monitoring reports rarely provided’ at 0.747.

The results indicate that the former variable has less influence on implementation of the FMPs as opposed to the other two variables regarding non-integration of reports and feedback for future improvement. This less strong impact of the variable can be attributed to characteristics of age, size and capital of the MFIs, which means the MFIs could not afford to hire qualified staff, such as a chartered accountant, neither could they offer in-house training to build capacity of staff, hence their view of reporting is devastating. Consequently, the non-integration of financial monitoring reports, with a greater significant value, has an immense influence on the implementation of the FMPs and for this reason, MFIs compliance to the operating guidelines in Accra is reliant on the provision of feedback to the MFIs.

It is worth emphasising that the combined effect of all the variables in this subtheme indicates some influence in the implementation, monitoring and supervision of the MFIs and therefore, positively impacts their performance.

The correlation test performed on the variables of this subtheme, which is linked to the second objective of the study, indicates both direct and inverse proportionality. The results are highlighted in the Correlation table (Appendix B).

5.6.3.11 Relationship variables for implementation, monitoring and supervision

A Bivariate correlation test between “There is no cooperation and dialogue ...” and “Supervision from Apex (GAMC) and BoG is not effective enough” indicates a direct proportionality of 0.468 (sig. 0.000) and 0.444 (0.000), respectively. Thus, the greater the lack of cooperation and dialogue between the MFIs and the BoG and the GAMC, the more supervision activities carried out by these oversight institutions will remain less than effective. Similar results were obtained when “There is no cooperation and dialogue...” and “Reporting requirements and frequency of reporting are rather rigid...” were tested (0.436, sig. 0.000), signifying that MFI reporting will depend positively on the level of dialogue that ensues between the MFIs and oversight institutions (BoG).

Other tests include “Funding” and “Minimum capital”, “Capital adequacy”, “Branching” and “Supervision”. Their correlation co-efficients are 0.327, 0.386, 0.359 and 0.352, respectively. Indeed, an upward review of the minimum capital does affect the capital adequacy, branching and supervision, as more funding is required to maintain the ratios needed for continuous operation.

Testing “Tier level” and “Supervision” reveals an inverse relationship, indicating that the weaker the supervision, the more cross-tier operations there will be, as the MFIs (social enterprises as they are), will fail to comply with the authorised activities at their tier level. This is very significant to the study as it impacts supersion and adequate compliance. This affirms the differences in guidelines for tier levels: whilst tier 1 MFIs are regulated with the Banking rules the tier 2 MFIs are not.

More relationships were highlighted in the correlation table (Appendix B).

5.6.3.12 Summary on implementation, monitoring and supervision

The subtheme covers cooperation and dialogue between the MFIs and their regulating institutions, MF support structures, governance and monitoring, supervision and reporting. The analysis of the variables indicates the relevance of all the factors that have a positive influence on the operations and ultimate performance of the MFIs. Therefore, lack of any of such variables could have a devastating impact on the MFIs, for instance, lack of or weak supervision renders implementation of the FMPs ineffective.

5.6.4. Implementation challenges

This section explores the third objective of the study, which seeks to explore the challenges the MFIs in Accra face in implementing FMPs. The literature review identifies a number of implementation challenges for MFIs. According to May (2013: 8) and Smith and Katikiredi (2012), successful implementation is neither a question of prescriptive nor interpretive process but adaption of the policy to local structure and conditions. Warnier *et al.* (2013:1366) emphasises inadequate firm resources (Hoekstra *et al.* 2014:8) as a major determining factor, whilst less clear guidelines and uncooperative attitudes (Gong and Janssen 2012), as well as poor oversight, can spell doom and lead to rule-breaking (Zahra *et al.* 2013). The variables of this subtheme, linked to the third objective, were analysed in the section.

The scoring patterns for the subtheme "Implementation challenges" are summarised (Table 5.13) and refer to the questionnaire (Appendix A: Questionnaire). The discussion of the variables (Table 5.13) will be presented under Figures 5.28 to 5.32 of this section.

Table 5.13: Summary of patterns for variables under "Implementation, challenges"

		Disagree		Neutral		Agree		Chi Square
		Count	Row N %	Count	Row N %	Count	Row N %	p-value
Minimum capital requirement	B16a	14	22.6%	2	3.2%	46	74.2%	0.000
Reporting requirements	B16b	11	18.0%	4	6.6%	46	75.4%	0.000
Capital adequacy	B16c	14	23.0%	3	4.9%	44	72.1%	0.000
MoFEP	B17a	10	16.7%	9	15.0%	41	68.3%	0.000
BoG	B17b	14	23.0%	2	3.3%	45	73.8%	0.000
SEC	B17c	10	16.1%	28	45.2%	24	38.7%	0.013
Apex associations	B17d	10	18.2%	3	5.5%	42	76.4%	0.000
The level of competition from the conventional banks is high.	B18	4	6.3%	1	1.6%	58	92.1%	0.000
Human resource and capacity building for	B19	13	20.6%	3	4.8%	47	74.6%	0.000

MFIs is lacking.								
The constant amendment of the banking operating guidelines for MF is devastating and highly operationally restrictive.	B20	15	24.2%	4	6.5%	43	69.4%	0.000

An illustrated summary of the variables in the subtheme "Implementation challenges" indicates the individual number of respondents and the relative percentages (Table 5.13) . The results, except for "Education and support from SEC", which yielded a p-value (p=0.013), are indicated by the highlighted p-values (p=0.000) for all items tested. This explains the statistical significance of the variables in this subtheme to the study.

However, the (p=0.013) recorded for "Education and support from SEC" proves that the MFIs are not informed of the role of the SEC in the financial system; particularly concerning the MF sector. These values being within the acceptable range (-0.05 – 0.05) indicates that all the variables tested for "implementation challenges" are very significant and of statisctical substance to study objective three of the research.

The analysis considered each of the variables in the summarised table individually. These separate variable analyses are illustrated by the figures that follow.

5.6.4.1 Difficulty in complying with minimum capital requirements, reporting requirements and capital adequacy requirements

The survey findings regarding the above variables are illustrated in Figures 5.28, 5.29 and 5.30.

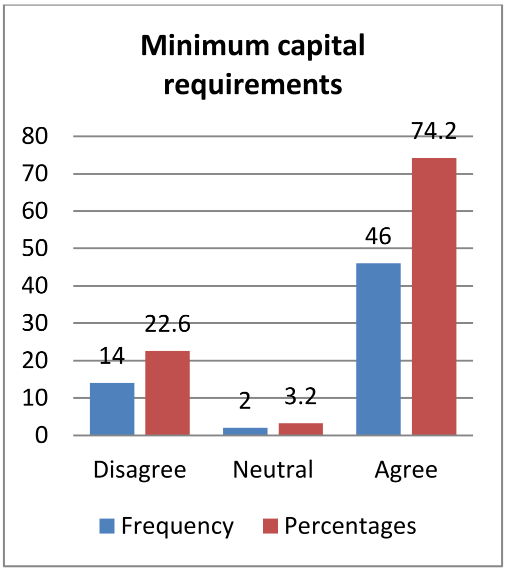


Figure 5.28: Capital challenge

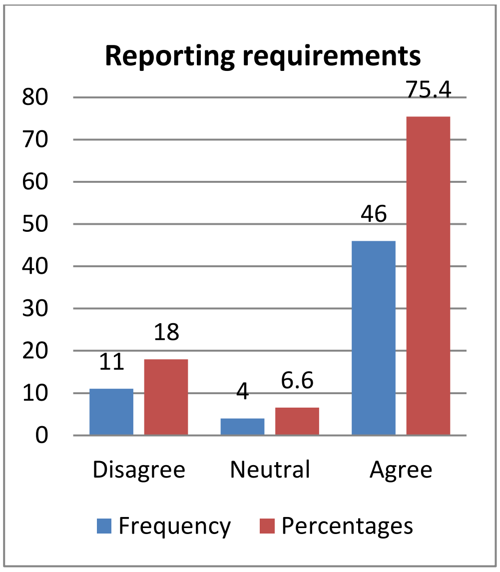


Figure 5.29: Report challenge

The findings illustrating whether the MFIs have difficulty with the BoG operating requirement regarding minimum capital are illustrated in Figure 5.28. The results indicate that 74.2 percent of the respondents agreed to difficulties in complying with the minimum capital requirement whilst the remaining 25.8 percent comprises 22.6 percent disagreement to the statement and 3.2 percent being neutral. This revelation can be linked to results of subtheme one where many of the respondents expressed disagreement with the statement on the flexibility and friendliness of the minimum capital requirement aspect of the banking operating guidelines (FMPs) for MFIs in Accra. Figure 5.29 showed similar trend with 75.4 percent of the respondents expressing difficulty with the reporting requirements and therefore see it as a challenge to their smooth operations. While 18 percent of the respondents expressed some satisfaction with this variable, 6.6 percent representing four respondents were neutral. A quarter of the respondents can therefore, be construed to have expressed differing opinions on reporting being a challenge to MFIs in Accra.

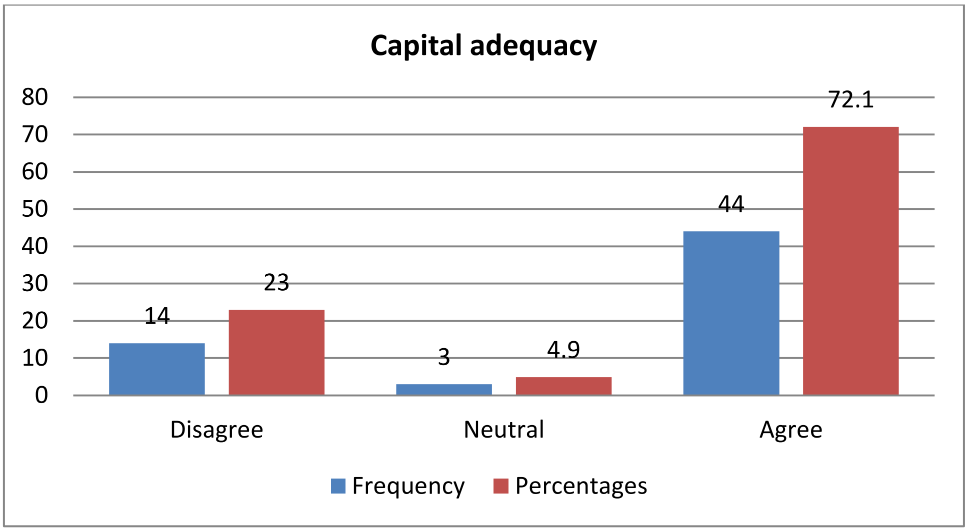


Figure 5.30: Reserve ratio challenge

The analysed results of any difficulty with capital adequacy illustrate the findings (Figure 5.30), confirming flexibility and friendliness of this variable analysed earlier, showing that respondents indicated 72.1 percent agreement that capital adequacy requirement is a problem, 4.9 percent were neutral, whilst 23.0 percent heckled the idea that capital adequacy is a challenge. This result can be attributed to the findings regarding the basic information of MFIs in Accra, where the Chi-square test result indicates (X^2=28.949, df=8, p=0.000), confirm statistical relevance of these variables.

In all three variables analysed, based on uniformity of the expected responses, the Fisher's Chi-square of Exact Test conducted indicates (X^2=50.065, df=8, p=0.000) for minimum capital, (X^2=49.803, df=8, p=0.000) for reporting requirements, and (X^2=44.295, df=8, p=0.000) for capital adequacy. Thus, the outcomes prove the substance and statistical significance of the findings regarding these variables; and that these outcomes were not per chance.

5.6.4.2 Policy education and implementation support

The analysis under subtheme one on 'supplementary guidelines' indicates a high level of disagreement of any existing guidelines. This variable is analysed to further ascertain if there is any education on implementation offered to the MFIs, in order to facilitate smooth implementation of the FMPs. The findings were analysed and are presented in Figures 5.31, 5.32, 5.33 and 5.34 (Appendix B: tables).

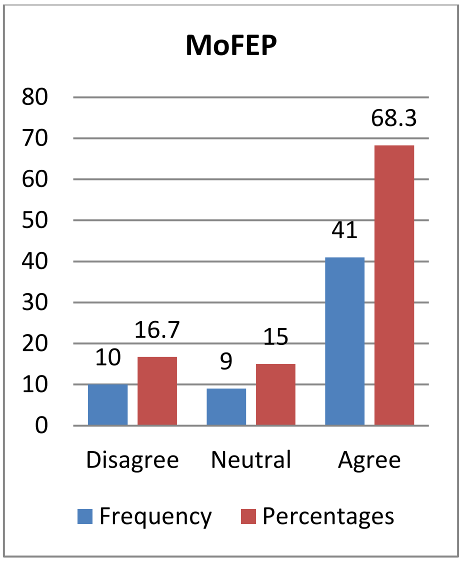


Figure 5.31: Supervision- MoFEP

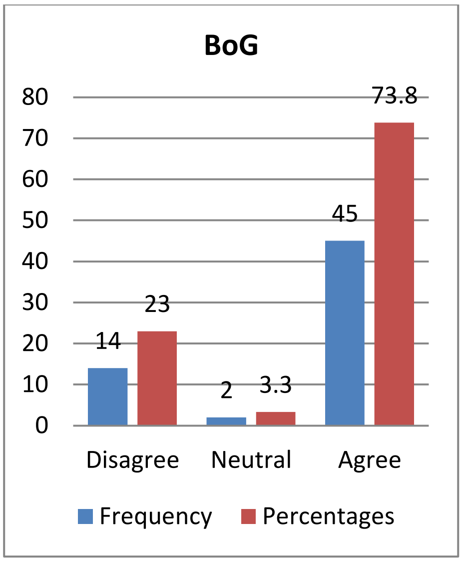
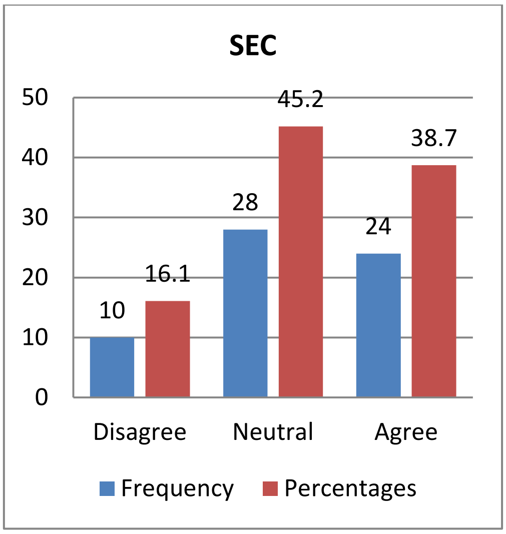


Figure 5.32: Supervision - BoG

Figure 5.31 illustrates the responses gathered from the respondents, whether some education is given on the FMPs and whether they receive adequate support from MoFEP, to facilitate the implementation of the regulations. To this statement, 68.3 percent indicated inadequate education and support from MoFEP, 16.7 percent of the respondents indicated support is enough, whilst 15 percent were neutral. On the other hand, 73.8 percent indicated that education and support of the regulations from BoG are inadequate, 3.3 percent were neutral, whilst 23 percent agreed to receiving adequate support and education (Figure 5.32).



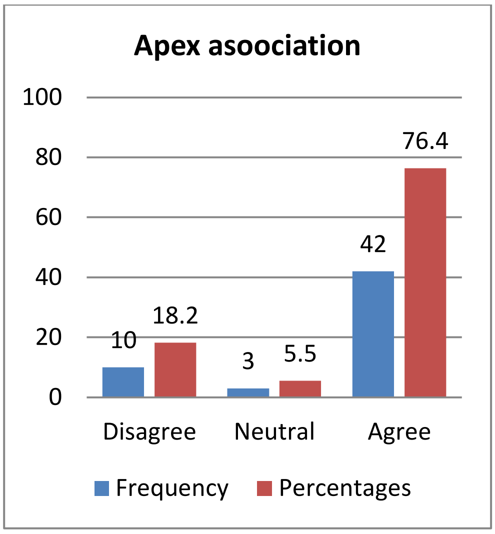


Figure 5.33: Supervision – SEC

Figure 5.34: Supervision- Apex

The views of the respondents, on how SEC promotes education and implementation support of the MFIs in Accra, are illustrated (Figure 5.33), showing the majority (28 of 62 respondents), representing 45.2 percent, are neutral, indicating their ignorance of SEC being a role player in their operations. The remaining figures were 38.7 percent who agree that inadequate education comes from SEC, and 16.1 percent indicating adequate implementation and educational support regarding the FMPs for MFIs in Accra.

Figure 5.34 presented the findings on the educational support the parent institution gives to the MFIs. The majority of the respondents (76.4 percent) indicated inadequate support, with regard to education on the implementation of the regulations, whilst 18.2 percent agreed that GAMC does provide some education, with the rest of the respondents remaining neutral to the statement.

Hoekstra *et al.* (2014: 8) emphasise fidelity, dosage delivered and received, as well as reach and satisfaction, as dynamics for policy adoption. Literature indicates that policy adoption depends on the disposition of the MFIs. Dosage delivered and received, especially, will depend on understanding through education and other supports for the MFIs, coupled with their disposition based on relevant aspects of the regulatory requirements necessary for their operation.

There was a strong level of agreement with the statements in this variable. Thus, all the figures above show that the MFIs do not receive education and other support measures adequate for the facilitation of smooth implementation. In other words, an implementation environment, according to literature, is lacking. This lack of appropriate environment (Hoekstra *et al.* 2014:8) is the bane of rule infractions and spate of problems confronting the MFIs in Accra; and in Ghana, in general.

The results of the Fisher's Exact Test conducted indicate the statistical substance of all the items in this variable. The Chi-square values (X^2=33.100, df=2, p=0.000) for MoFEP, (X^2=48.426, df=2, p=0.000), for BoG, (X^2=8.645, df=2, p=0.013), for SEC, and (X^2=47.164, df=2, p=0.000) for Apex body (GAMC), proves that the findings are different from the expected frequencies and are thus statistically significant in all cases. This substantiate that firm support is relevant for effective implementation and that challenges are inadequately evaluated to ensure counter strategies are embedded in the FMPs.

5.6.4.3 Level of competition

The level of competition from the conventional banks is referred to in the literature. This variable was included to assess how competition impacts the implementation of the FMPs for MFIs. The findings are presented in Figure 5.35 (Appendix B: Frequency table).

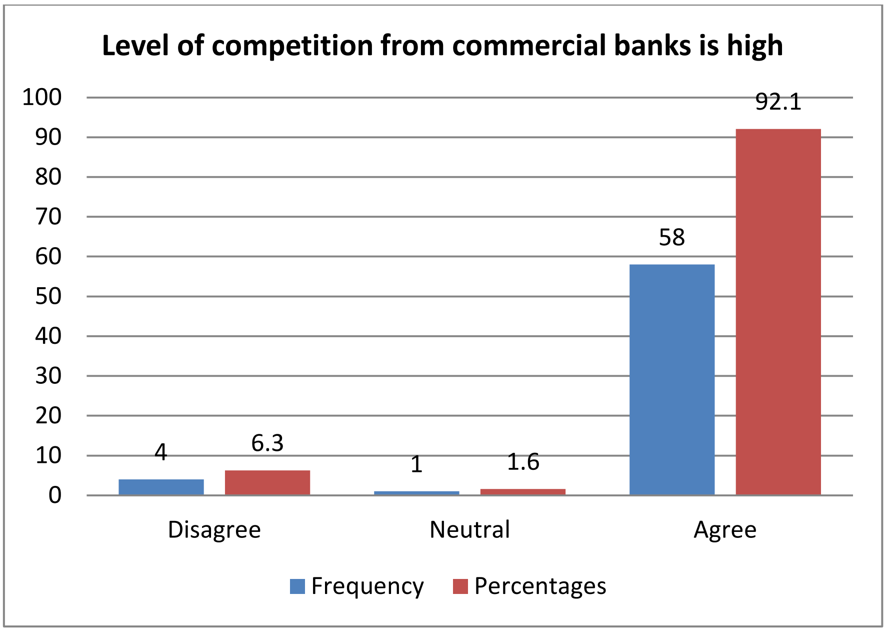


Figure 5.35: Level of competition from commercial banks is high

It is illustrated (Figure 5.35) that 92.1 percent of the respondents indicated agreement that there is a high level of competition from the conventional banks. A marginal 6.3 percent of the respondents disagreed on competition being high, whilst 1.6 percent of the remaining respondents remained neutral.

Accra being the national capital also explains the presence of both a large population and larger commercial banks, and the level of competition these banks might pose to MFIs. The p-value (p=0.000) highlighted in the subtheme summary table (Table 5.20) substantiates the statistical substance of the competition in determining the success of implementation of the FMPs among the MFIs in Accra. That is, competition impacts the performance and compliance with FMPs for MFIs in Accra.

5.6.4.4 Human resource quality and capacity building for MFIs

Literature states incompetent management (Boateng 2015: 52; 53) and poor board structure (Ojo 2013: 3) are among the challenges that have bedevilled the MF sector. The study sought to include this factor to evaluate its likely impact on the implementation of the FMPs for MFIs in Accra. The resource-based theory discussed in chapter two, also emphasises the relevance of management quality (Simon *et al.* 2011) and MFI structure and resources (Hoekstra *et al.* 2014) in policy implementation. The survey findings are illustrated with Figure 5.36 (see table in Appendix).

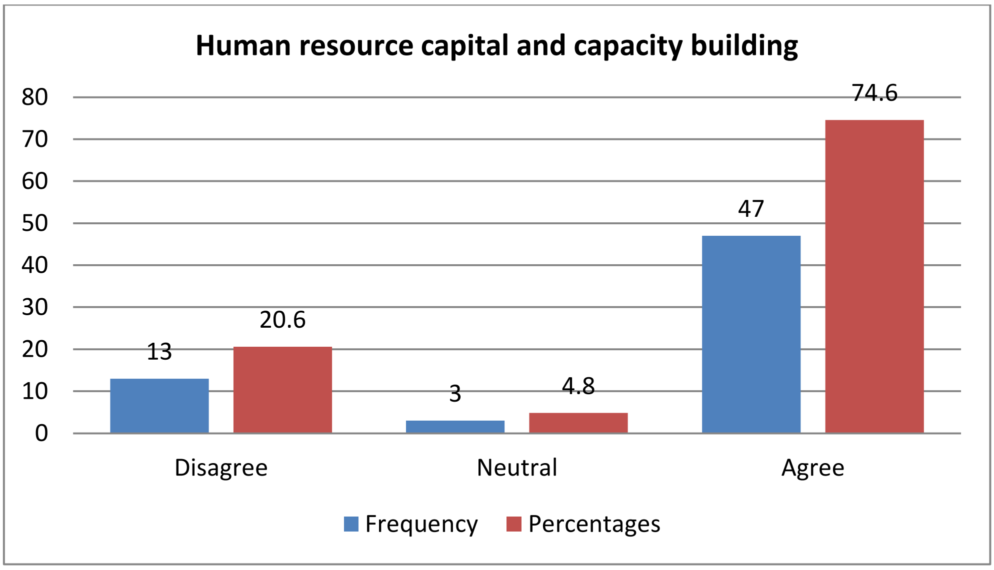


Figure 5.36: Human resource and capacity building

Findings obtained from the respondents (Figure 5.36) as to whether human resource and capacity building for MFIs is lacking indicate majority agreement. The responses obtained indicate 74.6 percent agreement that capacity building for MFIs is lacking, 4.8 percent were neutral, whilst 20.6 percent disagreed that human resource quality and capacity building are lacking.

The Fisher's Chi-square of exact test conducted on this variable, based on the alternative hypothesis that the expected responses will be uniform, resulted in (X^2=50.667, df=2, p=0.000), of which values indicate the statistical relevance of the responses obtained. This result differs from the expected frequency and confirms that human resources indeed have remained a challenge to the implementation of the FMPs and this is properly evaluated in the policy formulation process.

5.6.4.5 Impact of guideline reviews on the performance of MFIs

Policy implementation review (Rycloft-Malone *et al.* 2013: 8) is part of the cyclical policy formulation-implementation-reformulation discussed in the literature (Chapter two). The review enables the BoG and MFIs to assess the actual outcome (May 2013) of the implementation process. It is also a pointer to the need to adjust critical elements of the policy (Hoekstra *et al.* 2014: 8) to current needs of those it affects; the MFIs. The analysed survey data are presented in Figure 5.37 (Appendix B: Frequency Table).

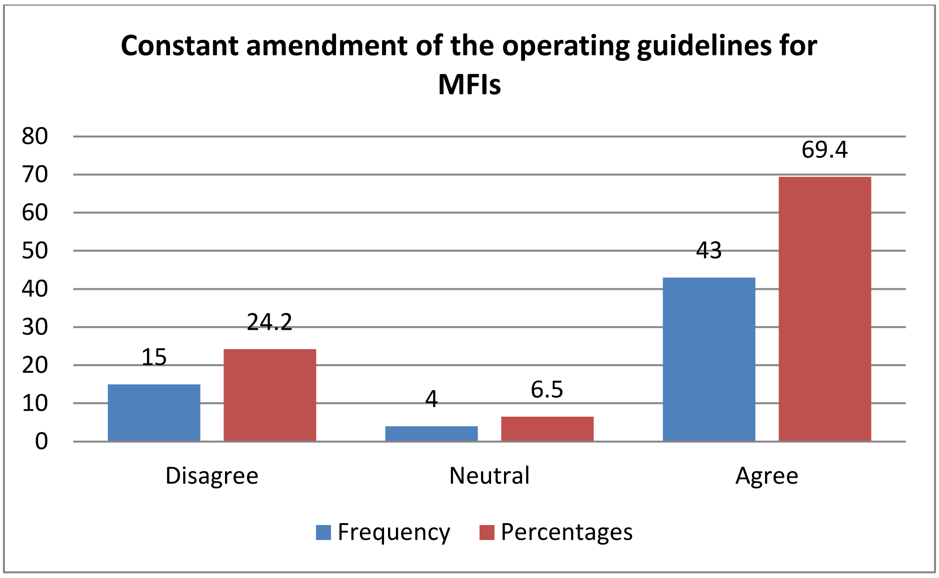


Figure 5.37: Challenges of regular amendment of regulation for MFIs

The variable was analysed to ascertain whether reviews are necessary. Figure 5.37 illustrates that 69.4 percent of the respondents agreed with the statement that constant amendment of the operating guidelines for MFIs does impact their service delivery, whilst 6.5 percent were neutral, 24.2 percent disagreed with the statement.

The Fisher's Chi-square of Exact Test results, however, attest to a high significance level for this variable in the subtheme. The results show (X^2=39.129, df=2, p=0.000), which is different from the expected response for this variable. The outcome indicates a statistical substance of the responses obtained and that this result is not per chance. This implies that implementation challenges are less evaluated when crafting the FMPs and thus the MFIs are confronted with regulatory challenges.

A component test on implementation challenges, regarding 'minimum capital', 'reporting requirement' and 'capital adequacy', loaded together in component 1 (Table 5.15). The findings illustrate that the respondents converged into two distinct opinion components. A detailed discussion on individual variables in this subtheme is presented below.

Table 5.14: Implementation challenges

Rotated Component Matrix [a]

	Component	
	1	2
Minimum capital requirement	0.857	0.298
Reporting requirements	0.864	0.256
Capital adequacy	0.892	0.305
MoFEP	0.117	0.905
BoG	0.256	0.895
SEC	0.095	0.862
Apex associations	0.290	0.880
The level of competition from the conventional banks is high.	0.622	-0.267
Human resource and capacity building for MFIs is lacking.	0.736	0.226
The constant amendment of the banking operating guidelines for MF, and sections therein, is devastating service provision and highly operationally restrictive.	0.769	0.210

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.

A component test was conducted to ascertain whether there are difficulties in complying with the relevant regulations for MFIs, in terms of 'minimum capital requirement', 'reporting requirements' and 'capital adequacy'. The three sub-variables were clustered in component 1 (Table 5.14). 'Minimum capital requirement' has a 0.857 KMO value, which means this variable has immense influence on the performance of the MFIs or can be regarded as a very challenging variable to the implementation of the FMPs and MF operations. Therefore, it is evident that the MFIs find it difficult meeting this requirement because raising adequate capital or funds still remains a major hurdle for all MFIs. While the statement whether 'reporting requirements' is also a challenge, the KMO value at 0.864 indicates the significant influence of this variable as implementation challenge.

This implies that staff of the MFIs is not qualified or do not have the requisite knowledge to record and generate the relevant periodic reports on MFIs' operations. However, the response on 'capital adequacy' as implementation challenge has 0.892 KMO value in component 1, as opposed to (0.305) in the other component, showing divergent views expressed by the respondents. The finding is of significance and impacts the MFIs, as they are struggling to meet this requirement. Capital adequacy is a function of minimum capital and as such, the more the challenge of meeting the minimum capital requirement, the more difficult it will be for the MFIs to meet the capital adequacy requirement and hence, these two variables correlate and directly influence the operation and sustenance of MFIs. This explains the statistical significance of the two variables to the study.

The other component test on the level of educational support the MFIs receive from regulatory institutions, namely the MoFEP, BoG, SEC and GAMC, has respondents' opinion loaded in two components (Table 5.14). MoFEP has a 0.905 KMO value, BoG stands at 0.895; SEC with 0.862 KMO and GAMC at 0.880 KMO. These KMO values indicate that the MFIs need support of the regulating agencies and inadequacy of such support could greatly influence decisions to implementing the relevant regulations and guidelines, as well as the performance of the MFIs.

The other variables of this subtheme clustered in component 1 (Table 5.14). The statement whether competition from the conventional banks impacts implementation of the FMPs for MFIs, has a variable of 0.622 KMO value for respondents' views. The value is not as strong as other cluster values of 0.736 and 0.769, for human resource and regulatory review challenges, respectively. It means therefore, that a high level of competition does have an influence but not the same level of impact on the operations of the MFIs, as the other two variables do.

The MFIs obtain loans from these other banks at expensive interest rates, hence their lending rates (Boateng and Boateng 2014) will be higher than that of the commercial banks. Thus, competing with the same bank with a lower interest rate may be forcing MFIs out of business; MFIs consequently see competition as an implementation bottleneck.

The 0.736 KMO score for 'human resource' and 'capacity building' indicates that poor quality human resource does have pervasive implications on the implementation of FMPs. Given their size and financial capacity, it thus means that the MFIs cannot afford to employ qualified staff nor develop skills in-house for efficient operations. Constant review of the regulations, given the KMO value (0.769) therefore indicates significant influence of this variable on the performance and implementation of the relevant guidelines for the MFIs (Table 5.14: yellow highlighted cluster).

5.6.4.6 Relationship between variables under "Implementation challenges"

This section illustrates the measured relationship between the variables analysed under this subtheme. The bivariate correlation test performed on the variables in this subtheme reveals the following: between "Minimum capital requirement" and "Reporting requirement", "capital adequacy", "BoG support", "Level of competition" and "Constant review of the guidelines", the results were positively correlated at 0.889, 0.890, 0.360, 0.251 and 0.522. these values are very significant to the study because they reveal the guideline reviews reduce the operation of the MFIs. Thus, the more the minimum capital poses a challenge to the MFIs due to constant upward reviews, the more funds the MFIs need to maintain the 10 percent capital adequacy. For this reason, competition is increased as they clamour to access funds from the commercial banks, which equally engage in the same MF activities.

Other relationship tests involved “Reporting requirement” and “Human capital and capacity building”, which also showed a direct proportionality with a co-efficient of 0.446 (sig. 0.000). Thus, the more the BoG seeks periodic reporting, the more the MFIs need to strengthen their human resource and demand capacity building support from the GAMC, which the institution is not well resourced to meet; therefore, the challenge of human capital heightens.

5.6.4.7 Summary on implementation challenges

The subtheme, ‘implementation challenges’, was linked to the third objective of the study. This objective seeks to explore the challenges MFIs face in applying FMPs. The findings reveal that the majority of the MFIs are confronted with challenges regarding minimum capital, reporting, lack of understanding of the regulation requirements, and poor supervision, as well as human capital and capacity. The respondents largely indicated that these variables pose enormous challenges and devastate their service delivery. The component analysis further confirms the findings presented in the figures under this section.

The next section analyses the findings from the qualitative survey aspect of the study.

5.7 Section C: Qualitative analysis

The purpose of this section is to state the findings obtained from the open-ended questions from the respondents, to substantiate the quantitative data presented in the earlier sections. The import of this activity was to give the respondents room to express their views on issues covered in detail under the three subthemes in Part B of the questionnaire.

There are five questions in this section. These are individually analysed by considering common assertions made by the respondents on each of the questions.

Question 1: Please, explain whether regulations are supplemented by additional guidance and how your institution applies these? (Appendix A: Questionnaire question 21 on page 358).

To this question, the majority representing 65.2 percent of the respondents indicated they do comply with all regulations regarding their operations but they do so by relying on their internal controls, while 22.4 percent indicated receiving some support from the parent association (GAMC) through circulars and regular discussion forum. The remaining respondents constituted 12.7 percent and operate with the regulation as they understand it; in other words, they rely on their understanding and market information in carrying out their activities.

Question 2: Identify and evaluate the base of supervision applied to the MFIs, vis-à-vis the regulatory and operating guidelines from (a) risk-based and (b) resource-based perspectives. (Appendix A: Questionnaire question 21).

The findings, in terms of risk-based supervision, show 64.9 percent of the respondents indicating various reserve ratios as the base used by the BoG to supervise MFI activities. This means application of minimum reserves, capital adequacy ratio and cash reserves are paramount in supervising the MFIs in Accra. Loan cap was indicated by 19.8 percent of the respondents in the operating guideline, as an equal base for supervising the MFIs, whilst others stated minimum capital requirement. On the other hand, 59 percent of the respondents indicated human resources, in term of management quality, experience and board presence, as resource-based supervision tools used by the BoG, whilst 14.5 percent stated minimum capital. The minimum capital requirement therefore stands as a common yardstick used by the BoG, in determining the operational capacity of the MFIs, as it also determines the tier level, legal status and authorised activities of the MFIs in Accra.

Question 3: In your opinion, how effectively are external monitoring and supervision promoting the sustainability of the MFIs? (Appendix A: Questionnaire Q23).

The results show 68.1 percent of the respondents indicated the less effectiveness and lack of interest the BoG shows in engaging supervision and close monitoring. They indicated that this results in malpractices, such as illegal and cross-tier operations in the MF sector. This might indeed leave the MFIs to their fate and hence their vindictive practices.

Question 4: What are the major constraints imposed by the legal or operating guidelines for MFIs or government regulations? (Appendix A: Questionnaire Q24).

The answers to this question revolve around the regular and arbitrary increase in minimum capital. Of the respondents, 68 percent are not happy with the annual increase in the minimum operating capital and indicated it has a direct impact on their capacity to operate. Linked with this is the additional cost of opening branches, as indicated by 64 percent of the respondents. According to the findings, any increase in the minimum capital calls for an increase in the deposit for running a branch. The tier system was stated as ineffective and the annual license renewal by the MFIs as less clear by a number of the respondents.

Question 5: In your opinion, what major factors do you consider as challenges to the implementation of and adherence to the financial regulatory and monitoring policies and changes therein for MFIs in Ghana; specifically, in Accra?

The findings revealed 43 percent for both ‘high cost of funding’ and ‘high level of competition’ between the MFIs and the conventional banks. Indeed, competition can drive social enterprise to act in a manner to secure its market and thus result in rule infractions (Cieslik *et al.* 2015). Another relevant concern indicated was illegal operations (38.4 percent), in other words, the large presence of unlicensed MFIs that is posing a remarkable threat.

The respondents perceived minimum capital increases as a means to deter other unlicensed operation but it served no purpose. Linking this factor to inadequate supervision, which recorded 16 percent, confirms the findings stated in Question 3 indicating weak and generally less effective supervision and monitoring on the part of the BoG and its stakeholder institutions such as the GAMC.

In summary, this section highlighted whether regulations do exist for MFIs, the basis of supervision the BoG applies and the effectiveness of such supervision and monitoring activities. Other issues considered were legal and other challenges the MFIs encounter in implementing the said regulations and the impact of these on their operations.

5.8 Conclusion

This conclusion is drawn from the findings analysed and interpreted in this chapter. The focus of the chapter was on interpretation of data using frequency graphs, Chi-square test for goodness-of-fit, cross-tabulations, and group component tables for factor analysis, as well as Cronbach’s alpha.

The Cronbach alpha significantly indicates that data collected for this study is highly reliable and that replicating this survey in other settings or on the same sample at some other time, will likely generate similar results.

From the analysis presented above, it can be summarised that the MFIs in Accra exhibit social enterprise characteristics. FMPs do exist for MFIs in Accra (Ghana) but these are not friendly and these regulations are centrally crafted, with little education and support given to the MFIs to facilitate its implementation. Supervision and monitoring was generally not strong enough and ineffective, creating a loophole for illegal and unlicensed operations. Minimum capital, restriction on opening branches, competition and the high cost of capital, coupled with weak regulations, are implementation challenges. The qualitative results were tangential to the quantitative findings indicating consistency in the findings and consequently, the primary data obtained from the respondents.

The chapter that follows provides discussions on the findings analysed and interpreted in this chapter; based on the main objectives of the research.

CHAPTER SIX

DISCUSSION OF FINDINGS ON THE PRIMARY DATA

6.1 Introduction

This chapter provides a detailed discussion on the findings relating to the primary data analysed in the previous chapter. The discussion will relate these findings to the study objectives and research questions, as well as the literature review, and express the implication of each finding, in order to make inferences and draw valid conclusions for the entire study.

The cardinal aim of the study was to explore the factors militating effective implementation of FMPs for MFIs in Accra (Ghana) and an overall objective of examining the FMPs pertaining to MFIs in Ghana, their formulation and implementation, and challenges peculiar to the FMPs.

To achieve this aim and, the broad objective, the following research objectives were formulated:

i. assessment of MFI FMPs of Ghana and its formulation;
ii. establishing how these policies are implemented and monitored; and
iii. evaluation of the challenges faced by MFIs in implementing policies.

6.2 Summary of key findings

- The basic information analysed from the findings confirms the characteristics of MFIs as social enterprises, in terms of their size, age, clientele and products being offered, as well as their legal status.
- The research findings indicate firm availability of sufficiently clear regulations for MFIs in Accra (Ghana). Licensing, minimum capital requirements, capital adequacy and requirements for branching are relevant prudential requirements (BoG 2011). Regular review of the guidelines also confirms the existence of regulations for MFIs as

evidenced by BoG (2012; 2013; 2015). However, the formulation of these regulations for MFIs is centralised; it does not involve adequate input from the MFIs, hence the respondents view the regulations (FMPs) as unfriendly and inflexible to apply.

- The legal form and tier level of operations determine the minimum capital requirement which is a requisite for categoorising MFIs in Ghana (BoG 2011).
- The research findings also indicate that implementation of the FMPs lacks dialogue, cooperation from the BoG, effective communication and support structures, such as funding, governance and capacity building. This shows that the MFIs mostly do not co-operate and lend to the implementation of FMPs to the letter. It further explains the top-down approach to formulation of FMPs for MFIs in Ghana. The guideline for operating specifies regulating and supervision criteria and thus indicates less contact between the supervising institutions and the MFIs. For this reason the proposition in Chapter 2, 3-Pillar FMP Ownership becomes very relevant.
- From the findings, internal controls were found to be sufficient at institution level. Most of the respondents indicated applying their internal controls, since internal audit functions for risk management were confirmed. This was perhaps to safeguard assets and meet annual license renewal stipulations.
- Furthermore, the findings indicate that supervision and monitoring from external sources, specifically the BoG and GAMC, is not strong enough. This leaves room for a large number of illegal and unlicensed operators in the sector. This is another strong case for creating a sentry for MFIs to promote regulationg and efficiency.
- Reporting was conveyed as cumbersome, indicating poor quality of human resources, which might be due to a lack of in-house capacity building and inability to attract qualified staff. Onsite visits by the supervisory authority, the BoG, were identified to be minimally engaged,

indicating a lack of data, coherence and consistency, in providing feedback to the MFIs, if any at all.

- General compliance with the regulating guidelines was found to be inadequate.
- The minimum capital requirement and its constant upward review were identified as the major challenges impacting all aspects of MF activities in Accra (Ghana). The problem of capital adequacy directly linked with increases on minimum capital, as the two positively correlate. Any upward review of the minimum capital equally increases the absolute amount to be maintained as capital ratio.
- The findings also reveal the high cost of capital, high competition and weak regulation as other challenges that impact the implementation of FMPs for MFIs in Accra and hence, the performance of the MFIs.
- In general, the study findings indicate MFIs in Accra lack guidance and supervision, needed to ensure regulatory compliance and effective implementation of the non-bank financial institution guidelines (FMPs for MFIs and other non-bank institutions) in Accra. Thus, to a large extent, the MFIs face challenges in implementing FMPs.

6.3 Discussion of findings in the context of the study objectives

The following section discusses the findings of the study, in terms of the research objectives and the related research questions.

6.3.1 Availability of FMPs for MFIs

The findings of the study confirm the banks and non-bank financial institutions' operating guidelines (BoG 2011) contain specific regulations for MFIs in Ghana. The basic elements of this financial policy regarding the MFIs include: licensing procedure, minimum required capital, capital adequacy ratio, and branch operations, along with permissible activities, annual renewal of licenses and mode of supervision, as well as periodic submission of reports; as contained in BoG (2011) and subsequent reviews. The study found that the MFIs do not really understand the full content of the policy, particularly due to the quality of their staff.

6.3.2 Nature of the regulation for MFIs

According to Ali (2015: 125), MFIs must be prudentially supervised, while at the same time, regulations must be crafted in a way to promote efficient development (Tuner 2012; Magali 2014) of the MFIs. The result of this study confirms that FMPs for MFIs in Accra, for that matter in Ghana, are prudentially adjusted policies to fit the activities of the MFIs in Accra; since basic requirements are focused on minimum capital, capital adequacy and ownership criteria (Khalily *et al.* 2014: 25), among others. However, it can be inferred from the findings that FMPs are more protective regulation than preventive (Ali 2015: 126), hence the laissez-faire supervision approach adopted by the BoG.

There is positive correlation between 'Minimum capital requirement', 'capital adequacy' and 'licensing', since licensing and the legal status of the MFIs depends on the level of their minimum capital. As per the guidelines (BoG 2011), the capital adequacy is 10 percent of the minimum capital, with a review of the minimum capital positively impacting the significance of capital adequacy, in absolute terms.

6.3.3 Formulation of FMPs for MFIs

Hallsworth and Rutter (2011: 18) and (Cairney 2012) posit that policy formulation should be regarded as a system of a network of elements that produce a combined effect. Pritchett *et al.* (2012), is supported by Ali (2015) and Magali (2014), in positing that a sound policy must involve the users, to enable the users to internalise the policy requirements. Thus, all actors in policy implementation matter in its formulation.

The findings of the study reveal that the BoG, as a mandated institution to regulate the MFIs, adopted a centrally linear approach to formulating policy guidelines for the MFIs; inferred from the findings regarding stakeholder participation stated above. The MFIs, the ‘street bureaucrats’, who wielded the market information relevant to formulation and reformulation of the relevant policies, seem neglected. Therefore, this is one of the prevailing issues affecting the adoption (Hoekstra *et al.* 2014: 8) and effective implementation of the regulations.

This is again confirmed by insufficient or a lack of supplementary information and support, in terms of education, indicated in the research findings. Thus, as stated by Pritchett *et al.* (2012: 18) and supported by Hoekstra *et al.* (2014: 8), the regulations (as indicated in the qualitative analysis) are considered less clear because the MFIs’ expectations and dispositions were not met. This lapse pronounces the implementation problem (Pritchett *et al.* 2012: 18). Given the quality and qualification of the MFIs management, implementation could be a struggle.

In summary, the first objective regarding assessing the regulations and their implementation is accomplished, as per the findings revealing the existence of such regulations for MFIs, that these regulations are prudential but were formulated centrally, through a top-down method.

6.3.4 Implementation, monitoring and supervision of the FMPs

The legal environment drives the characteristics of formal and informal institutions (Rivera-Santos *et al.* 2012). Hoekstra *et al.* (2014: 14) define the implementation environment necessary to ensure expected results. Literature emphasises the determinants that promote implementation and key guiding factors of interaction and communication (Hoekstra *et al.* 2014: 14; May 2013: 5) among the actors – the MFIs and BoG.

6.3.4.1 Co-operation and dialogue among stakeholders

The findings reveal the lack of cooperation and dialogue between the BoG, GAMC and MoFEP and the MFIs, as a major concern. Lack of or inadequacy of education and other supports have left MFIs to apply the rules according to their understanding (Ndambu 2011), which is short of the expected outcomes of the regulations.

Effective implementation of one policy involves changes to existing guidelines (May 2013: 5), which the MFIs must intend to use to modify their current activities. Nonetheless, as the findings indicate stakeholder participation is lacking, MFIs are not well-disposed to adopt the regulations and changes thereto, since divergent opinions are represented. The study also reveals among other issues that compliance is inadequate. This might be due to resource constraints indicated by both the quantitative and qualitative findings and as a result, implementation of FMPs is grossly less effective in Accra, if not poor.

6.3.4.2 Monitoring and supervision

Both quantitative and qualitative findings indicate weak monitoring and ineffective supervision. Inferences from the findings show that the BoG is selective in monitoring and supervision of MFIs. This is consistent with the operating guidelines (BoG 2011), which indicate that “Tier 2 institutions may be subject to on-site supervision of such periodicity as may be determined by the Bank of Ghana”.

As indicated in the literature, both the BoG (Wampah 2012) and GAMC (2016) lack resources to carry out effective supervision; subject to the operating guidelines of MFIs in Ghana (BoG 2011). As per the findings, a significant amount of illegal and unlicensed MFIs found in the MF market space in Accra (Ogbolu *et al.* 2015) ignore the service delivery regulations being applied to MFIs, while the duly legalised MFIs are left to operate in ways deemed fit (Ndambu 2011).

6.3.4.3 Reporting and feedback

Literature emphasises the lack of industry data for decision-making as one of the problems facing the MF industry worldwide. This study reveals that MFIs find reporting (source of data) cumbersome and difficult to meet. This perception may be as a result of the inability of MFIs to attract qualified and knowledgeable staff to carry out this function; a situation that can be linked to the MFIs resource disposition.

This study further confirms, as per the findings, that feedback is hardly given on the performance reports the MFIs submit to the BoG. Informal and illegitimate activities of MFIs thrive where there are weak institutions and regulations, while corruption prevails (Zahra *et al.* 2013). Hence, the proliferation of illegal and unlicensed operations indicated in the findings emerged as a result of inadequate effective supervision (Boateng 2015) and monitoring, on the part of the BoG, the GAMC and the MoFEP.

For this reason the proposition in Chapter 2, 3-Pillar FMP Ownership becomes very relevant. This is another strong case for creating a sentry for MFIs to promote regulationg and efficiency.

6.3.5 Implementation challenges facing MFIs in Accra

With regard to the third objective, on the challenges MFIs face in implementing their operating guidelines of the FMPs, the study identifies significant challenges facing MFIs in Accra. Principally, minimum capital, reporting requirements and capital adequacy are the primary challenges. Minimum capital is a challenge because the MFIs are finding it difficult to raise funds to meet this basic operating requirement. This challenge transcends capital adequacy and reporting and will result in inadequate operating capacity for the MFIs.

The challenge of capital adequacy is exacerbated by regular increases in the minimum operating capital, which by inference is used as a tool to curb inefficient operations in the MF sector. The chain effect of this is that the operating abilities of the MFIs are limited, as they have to meet the 10 percent capital adequacy ratio (BoG 2011) and branch operation capital base, anytime the base capital is increased.

6.3.5.1 Human resource and capacity building

The MFIs, given their size and other characteristics, lack the skills of bookkeeping and maintaining relevant records to meet the frequency of generating reports. This also explains inadequacy of resources, including software engineering to support documentation. The importance of the tier system could not be realised, due to poor control over environmentally determined activities of the MFIs (Santos 2012: 338). Other support from external sources, such as BoG, MoFEP, GAMC were inadequate. Though this might not be very significant by itself, when combined with other implementation challenge variables, it does impact the policy implementation process for MFIs.

Finally, the findings confirm discussions in the literature regarding competition and weak regulations, since these have created a loophole for illegal and unlicensed operations, resulting in exploitation, illegitimate activities and unrefined operations outside the legal boundaries (Cieslik *et al.* 2015) in Accra.

The case of competition is relevant because the MFIs obtain loans from the commercial banks for their activities, which means their interest rates will be higher, relative to the rate of interest charged by the commercial banks on their MF products. The direct effect is that the clientele base of the MFIs will be low, since the cost of obtaining loans from MFIs is high. Another challenge is the lack of human resources and capacity building. The MFIs obviously find it difficult attracting well-qualified and experienced staff as the cost to the business will be high. This equally explains why MFIs count reporting requirements as a huge challenge to their inability to implement FMPs.

6.4 Conclusion

This chapter discussed the key findings of the study in relation to the study objectives and questions. It included a discussion on variables, such as the availability of regulations for MFIs and the formulation of these regulations to satisfy study objective one. Furthermore, implementation of the regulations, supervision and monitoring of MFIs in Accra, were discussed in case of objective two, along with regulation implementation challenges confronting the MFIs. This indicated minimum capital and its chain effects on the overall activities of the MFIs, as well as weak regulations and poor supervision.

Again, chapter two discusses social entrepreneurship, policy formulation, policy implementation, financial intermediary, agency, stakeholder and governance and resource based theories in terms of MFIs. The discussion devolves conceptual framework which proposes a model the study named *3-Pillar Financial Monitoring Policy Ownership Model* for MFIs in Accra. The view of the study is that the model, if adopted, will promote establishment of a sentry, an independent regulatory institution, for the purpose of ensuring efficiency, effective implementation FMPs of MFIs and promotion of the MF sector in Ghana. The chapter and particularly the concept is more relevance to the findings in this chapter and the conclusion and recommendations reached in the next chapter.

The next chapter focuses on the conclusions drawn from the discussion in this chapter and recommendations of this study.

CHAPTER SEVEN

CONCLUSIONS AND RECOMMENDATIONS

7.1 Introduction

Microfinance is internationally acclaimed as a panacea to poverty reduction (Sowmyan *et al.* 2011; Stewart *et al.* 2010; Kipesha and Zhang 2013), hence the concept is practiced in Africa, the Americas, Eastern Europe and other areas of the globe. The contribution of the MF sector to the economies of the early adopters of this concept, such as India, prompted the world's acclamation of MF as a poverty reduction strategy. However, the practice of MF depends on each country's jurisdiction. In recent times, MF practice has come under much criticism, due to its exploitative nature and the quest to amass profit for financiers.

One other worrisome issue confronting the entire sector, is the rate at which the MFIs are folding up and doing away with the hard earned funds of the same poor the concept seeks to assist. Most authors have tried to address the problems of the sector from different angles, ranging from funding, management and governance, as well as risk control, and the lack of appropriate regulations specific to MFIs.

This research views the phenomenon as that of improper implementation of regulations and a lack of supervision; and hence concentrated on establishing how the MFIs in Accra apply the relevant guidelines (FMPs) to their operations, along with challenges that mitigate proper implementation.

This chapter will focus on the discussion of the findings, in order to draw conclusions about the study objectives and their implications: contributions of the study to industry and theory, limitations, and recommendations based on the findings of the research for the MF industry and for further research on the topic.

7.2 Conclusions about objectives

This section presents conclusions reached on the findings of the study, analysed in chapter five, for each of the supporting objectives of the study.

7.2.1 First supporting objective

This objective seeks to assess MF FMPs of Ghana and its formulation. Based on the discussion in the previous chapter, it is concluded that:

- adapted prudential regulations do exist for MFIs of all tier levels in Ghana and this policy is regularly reviewed. Minimum capital requirement, capital adequacy and reporting requirements, as well as liquidity regulation aspects of the guideline maintain the prudential nature of the FMPs, which is less user-friendly for implementation though. Unfortunately, MFIs rely mostly on intuition and their best understanding of the regulation in their operations;
- though regulation does exist, in the formulation and reformulation of the regulations for MFIs, the MFIs neither play a meaningful role nor make any input. Rather, the entire regulation formulation structure is dominated by the BoG, the legally mandated oversight institution for the entire financial system of Ghana;
- in the light of this, a lack of proper implementation of FMPs by the MFIs can be partly attributed to inadequate stakeholder involvement and their MFIs disposition on the content of the FMPs;
- the MFIs also do not receive adequate supplementary information as to what the regulations contain, due to inadequate communication. Thus, the MFIs receive no guidance or other information relevant to understanding the regulations. They rely on their internal controls to operate. Given the quality of their human resource and management, it is evident that compliance to the regulations will be less than expected. The conclusion is that the guidelines are not very effective as far as the MFIs' disposition is concerned.

- Supervision and compliance is not as strong as other variables, so as to determie whether regulations do exist, yet if combined with other variables, plays a key role in establishing such.

7.2.2 Second supporting objective

With regard to establishing how the policies are implemented and monitored, it was clear that MFIs only apply the rules to satisfy reporting requirements of the BoG, for fear of losing their licenses; the spirit and commitment to the regulating guidelines are virtually missing.

It is concluded that:

- There is little communication between the BoG and the MFIs. Relating this to the conclusion on stakeholder involvement and insufficiency of relevant information on the regulations, affirms the fact that implementation seems to have an effect but not strong enough. This is evident in the response pointing to the MFIs reliance on market information which might be distorted; hence the conceptual framework is a much need concept to create the platform needed for better communication;
- The tier system, though a strong variable, only aids to accord the MFIs legal status; it does not promote policy implementation;
- Regarding support structures for the MFIs; funding and governance support were lacking. This is substantiated by a minimum capital requirement difficulty as the MFIs rely on the commercial banks for funding. Less efficient governance support is a recipe for poor implementation;
- The MFIs rely on their own controls mostly as well as market information to operate. Though compliance is inadequate, internal audit and risk management are good but could be better, should this type of support be provided by the BoG and GAMC. This affirms inadequate support the MFIs receive.

- Supervision and monitoring is mostly lopsided, weak or non-existent (to say the least). The proliferation of unlicensed and illegitimate MF activities attests to weak supervision on the part of the BoG. This less than expected supervision of the MFIs creates the leeway for rule infraction (Cieslik *et al.* 2015) and further confirmation of the social enterprise theory discussed in Chapter 2 of the study; and
- Other conclusions on this objective have to do with reporting and provision of feedback to the MFIs. Onsite monitoring was totally absent, resulting in insufficiently integrated feedback reports on the performance of the MFIs. However, the MFIs find it difficult meeting offsite reporting requirements, perhaps due to the quality of their staff; which confirms literature regarding MFI management and quality of staff not having the requisite skills.

7.2.3 Third supporting objective

This objective evaluates the challenges faced by the MFIs in implementing the policies.

It is concluded that:

- random minimum capital increases, and the use of it as a tool to weed out inefficient MFIs and its attending call for maintenance of capital adequacy, topping up base capital to remain operational with branching baseline capital, is affecting the operation of the MFIs. Ultimately, minimum capital increases invariably disable most of the MFIs to renew their licenses. This therefore adds to the mass of MFIs already carrying out illegitimate MF activities in Accra. The MFIs find it difficult raising additional capital, since they lack the resources to commit as collateral for such loans from the commercial banks;
- Competition may be high because the lending rate from the MFIs is higher than that of the commercial banks, from whom the MFIs obtain funds for their operations. This is one of the main causes for stiff

competition, as the MFIs have to pay high costs to obtain funds to meet the requirements, while maintaining sufficient capital for their operations;

- Reporting requirements are not friendly to the MFIs because their staff lacks relevant bookkeeping skills and qualifications. The MFIs do not have the capability to develop capacity in-house and a shortage of support, in terms of education and capacity building from the BoG, GAMC and allied institutions, aggravates the situation; and
- The emphasis of reviews on minimum capital and other factors, such as poor supervision, illegal operations, and annual license renewal collectively disadvantage the MFIs and consequently, impact effective implementation of FMPs for MFIs in Accra (Ghana).

7.3 Implications of the study

The proposition of this study is twofold: contribution to theory and to the MFI industry.

7.3.1 Contribution to Implementation theory

The implication of this study is to contribute to the body of knowledge relating to regulation in the MF financial subsector in Ghana, specifically in Accra. The policy formulation strategies currently used do not promote cooperation and use. The concept of 'bottom-of-the-pyramid' concepts and removal of the ToM concept (Foss and Stea 2014) must be considered in MF policy formulation.

Implementation research has sparked much debate and has gained the attention of many research studies because it is now understood that time is wasted formulating policies that are left to gather dust, when the very purpose of doing it does not materialise. Understanding implementation theory and the processes therefore enhance the application of regulations and the realisation of the intended purpose of it in the MF sector; following this, the true impact of the MF concept can be felt.

This research contributes in adding 'implementation' as a new concept within the theory and strategies to enhance research on MF delivery. Such theories and concept have not yet been found in previous literature. The implication is that implementation theory must be added to research on improving MF delivery.

The implementation concept and theory should also be encouraged in the policy 'formulation-implementation-reformulation' cycle in the MF sector; especially, the theoretical framework proposed by this research, which encapsulates Lipsky's 'street-level bureaucracy' model of the 1980s and 'bottom-of-the-pyramid' concept, removing the ToM concept (Foss and Stea 2014).

7.3.2 Contribution to MF industry

Practically, this research will contribute to the understanding of every stakeholder in the MF industry in Accra of their role in promoting and sustaining prudent financial practices through formulation and implementation of relevant polices. The difficulties of the MFIs, in implementing the FMPs, include but are not limited to funding, knowledge and skills, competition and poor supervision. MFIs do not implement the FMPs of the BoG, mostly due to their disposition towards the bank and lack of capacity.

It is expected that this study practically impacts the Bank of Ghana and its allied institutions such as GAMC and the MoFEP to adopt a new policy formulation process that will capture the contribution of the MFIs, through dialogue and cooperation via creation of a robust information platform. It will also ensure the sector characteristics, resources, operational methodology, and management quality of the MFIs are factored into FMP formulation, to enhance implementation by the MFIs. The need for communication sharing and the building of such support structures, education and capacity building, will promote understanding, cooperation and industry best practice. Other way of promoting the sector is to buy in the 3-Pillar FMP concept discussed in Chapter 2 of this study by creating an autonomous institution to promote and improve the success of the sector.

7.4 Limitations

The major setback of this study is that it is confined to Tier 2 MFIs, and those operating in Accra, even though other tier level practitioners, such as Rural banks, Savings and Loans companies, and Co-operatives, as well as Money-lending and Susu companies, also extensively engage in MF activities. However, the Tier 2 MFIs are the dominant institutions in the non-banking financial setocr in Ghana.

Secondly, the findings cannot be generalised as there is the need to conduct this research in other cities in Ghana, to further confirm the study results' reliability before any generalisation is made.

Another mentionable limitation is the reluctance of many MFIs to complete questionnaires, as they incorrectly saw the interviewers as 'mystery officials' of the BoG, seeking to obtain information that might lead to their closure; in case of being found guilty of transgressions. However, the Ethical Clearance letter and the researcher identification details were used to prove the intent of the study to solicit the support of the respondents.

Finally, the study did not consider policy making officials and MFIs clients.

7.5 Recommendations of the study

The study, based on the results discussed in the foregoing chapter, proposes the following steps to be taken to improve implementation and monitoring of the FMPs for MFIs in Accra. The proposition is presented in two parts: for the MF industry and for further research.

7.5.1 Recommendations for the MF industry

The MF industry, based on the authorised activity of accepting deposits, cannot have the trust and loyalty of clients when the sector is not well-regulated. Effective and efficient implementation of the requisite regulations will mean adequate communication, dialogue and cooperation from all stakeholders in the industry. Inferring from the findings and the conclusions, this study suggests the following recommendations.

7.5.1.1 Formulation of regulations for MFIs.

The findings of the study indicate that stakeholder involvement in the formulation of FMPs for MFIs in Ghana is minimal, coupled with inadequate information on the guidelines for implementation. The content of the guidelines became inflexible because the dispositions of the MFIs do not reflect in the regulations meant for them. This study therefore recommends the following steps to be taken, that:

- The MFIs and the GAMC should be critically considered in the formulation and reformulation of FMPs for MFIs in Ghana. Lack of input from the MFIs does not augur well for implementation.
- The BoG and the GAMC need to provide timely and accurate information on the guidelines to aid the understanding and implementation of the requisite guidelines.
- All regulation reviews must involve the MFIs and only this will reveal the capability of the MFIs to implement required changes in the regulations.
- It is further recommended that creating an autonomous institution, sentry as stated in Chapter 2, could improve the formulation process as the sentry will serve as custodian of the MF regulations; within the banking regulations promulgated by the central bank, the Bank of Ghana.

7.5.1.2 Implementation, monitoring and supervision of MFIs

To promote the implementation and improve on monitoring and supervision of the MFIs in Ghana, this study recommends the following steps to improve implementation and monitoring:

- Cooperation and dialogue must be established through creation of an intermediary institution, a National Microfinance Promotion Council (NMPC), herein referred to as 'Sentry' as stated in Chapter 2 of the study. The sentry will be independent of the BoG (Pillar 1 in the conceptual framework) and must be resourced to promote efficiency in the MF sector. That is, the NMPC becomes the autonomous regulator of the MF subsector in Ghana and with the duties of resource and providing capacity building for the sector.
- The BoG and government must, through the NMPC, create funding and governance support structures that will ensure an affordable source of funding and improve risk management of the MFIs.
- Government must assist in creating an integrated management system that will enhance report and data generation for monitoring and effective supervision.
- The NMPC must be mandated to carry out licensing, monitoring and supervision, as well as the withdrawal of licenses and perhaps closure of non-performing MFIs.
- Due to lack of capacity, the OFISD of the BoG could not function optimally, which justifies the need for legally creating the NMPC with representation of the BoG on its board.

7.5.1.3 Mitigating implementation challenges

The study identifies minimum capital and its direct impact on capital adequacy, along with branch operation, lack of skills and the high level of competition, as major challenges to implementing FMPs.

In this regard, this study recommends immediate steps:

- That minimum capital must not be used as a tool to ensuring efficiency or removing inefficient MF operators from the market. Improving monitoring and supervision through the NMPC will promote compliance and effective implementation of relevant sector guidelines.
- A national training centre of educating and equipping MF management with the requisite financial management and reporting skills, will promote appropriate and timely reporting, as well as enhance sector performance. In this regard, this study suggests collaboration between the GAMC and the newly created institution, the NMPC, in offering capacity building through regular seminars and workshops for MFI staff and management.
- This study also suggests that government refocus the MASLOC to be an institutional funding provider, which will lend to MFIs at competitive rates or create a resource pool for funding MFIs at rates that will enable the MFIs to offer their products at competitive interest rates to their clients. In this way, the level of competition with the commercial banks will be minimal. Also, the sentry ‘NMPC’ should be mandated to source for finance to promote the sector in which case the NMPC becomes the source of finance to the MFIs rather than the MFIs reliance on the commercial banks, with whom they in competition, for the funding.

7.5.2 Recommendations for further research

This study seeks to explore the regulations available on MFIs, application of the policies and challenges that the MFIs face in implementing the FMPs. Based on the findings of this research, it is recommended that further research be conducted to explore:

- This study is limited to Tier 2 MFIs and thus can only have full impact if the same topic is applied to MFIs in Ghana as a whole.
- Evaluation of stakeholder participation and performance of MFIs in Ghana. The study can examine the role of MF stakeholders in policy

formulation, in promoting MF service delivery in Ghana. This will address other stakeholders as well.

- Understanding MF risk towards effective policy development and implementation. In this regard, emphasis can be on operational risks of the MFIs and policies that will reduce the impact of the risk, in order to improve the performance of MFIs.
- Implementation research specifically on compliance of MFIs to industry best practice;
- Promoting MFIs reporting through integrated information management systems. This study can highlight sector specific software that will promote report generation and skills development for comprehensive record keeping.
- Monitoring and evaluation of MFIs practices in areas other than Accra. A study of this nature can adopt a case or comparative study approach, by comparing MF regulation in Ghana to selected countries in other parts of the world. This may focus on adverse selection and moral hazard concepts in devising policies and processes for MFIs.
- Risk management in MFIs, specifically risk appetite and tolerance levels appropriate to MFIs, with emphasis on quantitative analysis.
- A qualitative study on the cause and effect of the collapse of MFIs in Ghana. This may identify other peculiar challenges of the MFIs in Ghana as well as oher developing economies.
- The influence of competition on the delivery of MF in Ghana. This will explore competitive strategies for MFIs using a qualitative case study approach.
- Quantitative research on the optimal asset portfolio for efficient MF engagement. This study may highlight mathematical measurements of asset components that MFIs must maintain to ensure efficient operation.
- Capital adequacy for MFIs: an implication for operational cability of MFIs in Ghana. This study can delve into other possible sources of funding of MFIs such creating institutional syndicate to raise funds.

- Funding MF: the role of government in promoting financial health and efficiency of MFIs in Ghana.
- Resource-based monitoring and service delivery of MFIs in Ghana.

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APPENDICES

APPENDIX A1: Introductory Letter

DURBAN UNIVERSITY OF TECHNOLOGY

Department of Entrepreneurial Studies and Management

Date: 18 December 2015

Introductory Letter

Dear Participant

I am a PhD candidate of the Department of Entrepreneurial Studies and Management of the Durban University of Technology, completing my studies with research, titled “An investigation of the financial monitoring policies (FMPs) of microfinance institutions in Accra (Ghana).”

I would like to include you in my research study. The objective of the study is to explore how financial monitoring policies can be implemented to promote microfinance (MF) performance in Accra. I therefore ask your permission to include you in the study.

I also wish to assure you of your anonymity and the confidentiality of any information solicited from you through interview, questionnaire or by any other means. You can be assured that all information gathered through interviews and/or by any other means, will be used for this research purpose only and will be destroyed thereafter.

Thank you for your time and cooperation.

Sincerely,

Quao, Kwami Hope	Lawrence M Lekhanya (PhD)
Research candidate	Associate Researcher/Supervisor
Cell: +27710871406	Cell: +27723353411
Email: k69.quao@gmail.com	Email: lawrencel@dut.ac.za

APPENDIX A2: Letter of Information

LETTER OF INFORMATION

Title of the Research Study: "*An investigation of the financial monitoring policies of microfinance institutions in Accra***"**

Principal Investigator/researcher: Kwami Hope Quao [MBA; M-TECH; ACCA (Final); Adv. Dip. In Risk Mgt.]; BCom (Accounting and Finance)

Supervisor: Dr. Lawrence M Lekhanya (PhD)
Co-supervisor: Prof. Nirmala Dorasamy (PhD)

Brief Introduction and Purpose of the Study: The microfinance (MF) industry, a well-known source of hope for the poor, is being bedevilled by many challenges, leading to the collapse/closure of a good number of them. In Ghana alone, 30 institutions closed down in 2013. A literature review indicated academic interest in finding what might be lacking in the sector's delivery of its mission of financial inclusion for the poor. Most researches done on MF centres on sustainability, growth, outreach and poverty reduction; as well as empowerment and regulatory issues that focus on formal and subsidised microfinance institutions (MFIs). Little has been said, if any at all, about implementation of the financial monitoring policies of these institutions to ensure compliance, growth and preclusion of systemic problems and contagion in the financial sub-sector. Indications are that monitoring policies and effective supervision are yet to receive equal attention as a means of ensuring sustainability in the sub-sector. This research fills that gap, through exploring what might be preventing integrated implementation of the financial monitoring policies for MF in Accra.

Outline of the Procedures: The research intends to gather data from financial regulators of Ghana for the study, as well as from MF apex bodies, and purposefully select 65 MFIs as proxy, in addition to reviewing policy and regulation documents. A semi-structured, open-ended interview questionnaire will be used, drawing in individuals with specialized knowledge in the field, in order to obtain only relevant information pertaining to this research (Patton, 2002). Data collected will be analysed using themes and with SPSS 24.0 software employed for descriptive analysis.

Risks or Discomforts to the Participant: As a result of the nature of this research, the research neither perceives nor anticipates any injury, risk or discomfort of any kind before, during and after the study to respondents, due to their participation in the study. Hence, the researcher does not take responsibility for any event or injuries of any kind during and or after the study.

Benefits: It is anticipated that respondents, who are practitioners, will appreciate the need for financial monitoring of MFIs and gain insight into and contribute to effective implementation of the financial monitoring regulations of the MFIs in Accra. The outcome will furthermore assist the MFIs to reorganise, build internal monitoring systems and comply with all financial regulations that will ensure efficiency in their operations. The researcher also intends to publish the research findings in Economics and Business journals, while the outcome will further serve as a conference paper and an addition to the library of education/reference material for future research.

Reason(s) for withdrawal from the study: A participant in this research has the right to withdraw his/her participation at any stage of the study, without prejudice. The researcher respects the right(s) of all participants who agree to be part of the research process and who, for whatever reason, decide to withdraw their participation due to reasons they deem fit and which reason might include illness, discomfort, personal principles or adverse reactions. There is no consequence of any kind due to the withdrawal of participation by a respondent or participant.

Remuneration: A participant may have the benefit of receiving a copy of the findings of this research. There will not be any financial benefit due to participation or contribution to this study.

Costs of the study: There will not be any financial commitment on the part of the participants. All costs relating to the study, from its inception to conclusion, shall be the obligation of the researcher.

Confidentiality: The names and identity of all participants will be anonymously maintained. All print information, as well as recorded information (audio or video) shall be maintained, used for the research purpose only and thereafter, permanently destroyed.

Research-related injury: No injury of any kind to participants or respondents is anticipated by the researcher.

Persons to contact in the event of any problems or queries: Please, do contact the researcher: Kwami Hope Quao (+27 71 087 1406/+27 78 905 8907; k69.quao@gmail.com) or my supervisor: Dr. Lawrence M Lekhanya (+27 72 335 3411; lawrencel@dut.c.za) or the Institutional Research Ethics administrator on 031 373 2900. Complaints can be reported to the DVC: TIP, Prof. F. Otieno on 031 373 2382 or dvctip@dut.ac.za.

General: Participation in the study is voluntary. Participants will be sampled from MFIs in Accra and Banking supervision divisions of the Bank of Ghana (BoG) and the MF arm of the Ministry of Finance and Economic Planning (MoFEP) in Ghana.

Thanks.

Kwami Hope Quao
ID: 21452750
+27710871406
+233548034651

APPENDIX A3: Questionnaire – Management and Staff of MFIs

DUT DURBAN UNIVERSITY OF TECHNOLOGY

Faculty of Management Sciences

Department of Entrepreneurial Studies and Management

QUESTIONNAIRE FOR

MANAGEMENT/STAFF OF MICROFINANCE INSTITUTIONS

Preamble: This research focuses on "An investigation of the financial monitoring policies of microfinance institutions in Accra (Ghana)."

The researcher wishes to establish the financial monitoring and supervisory policies that apply to the operations of MFIs, specifically in Accra, whether the policies are effectively implemented and to identify challenges the institutions face.

It would be highly appreciated should you be able to assist by answering the attached questionnaire. The information provided will be treated with utmost confidentiality and anonymity and will be used for the purpose of this research only. No other use will be made of the information obtained, either for third party reasons or otherwise, without your permission. Your security is further strengthened and authenticated by the attached: ethical clearance, introductory and the consent letters.

Section A: Basic details of the MFI

a Name of the MFI: ....
b Region of operations: ....
c Year operations began: ....
d Legal form: Bank, Rural bank, NBFI, NGO, Cooperative/Credit Union (Please encircle one).
e Tier level of operation: ....
f Authorized activity(ies): ....
g Report for Year ended (day – month – year): ....
h Number of loan accounts: ....

i Number of currently active borrowers (not loan accounts): ....
j Number of savings account: …………………………………………………… ....
k Number of currently voluntary savers (not savings accounts): ....
l Total number of members (if applicable): ....
m Total number of staff: ....

Section B:

Important*:* Please, indicate a tick (√) against each of the statements/questions under each of the following options “1: SD = Strongly Disagree”; “2: D = Disagree”, “3: N = Neutral”, “4: A = Agree” and “5: SA = Strongly Agree”.

Statements/Questions	SD 1	D 2	N 3	A 4	SA 5
Regulations and their formulation					
1. There are sufficiently clear financial regulations available for microfinance institutions.					
2. Financial regulatory policies for MF operations regarding the following areas are flexible and friendly:					
a. Licensing					
b. Minimum capital requirement;					
c. Capital adequacy;					
d. Liquidity management					
e. Branching					
f. Supervision and compliance					
3. There is sufficient stakeholder participation in policy-making procedures.					
4. There is adequate supplementary guideline or information on the relevant regulations.					
5. The regulations are constantly reviewed to meet the current market needs of the MFIs.					
Implementation, monitoring and supervision					
6. There is no co-operation and close dialogue between the police-making bodies and the individual institutions.					
7. The tier categorisation system enhances service delivery and regulatory compliance.					
8. There are microfinance support structures for: a. Funding b. Governance					
9. Compliance to operational guidelines is inadequate.					
10. Always maintain adequate proportion of assets to satisfy the capital adequacy and liquidity management requirements.					

11. There is strong internal monitoring system in the following areas: a. Well-balanced governance. b. Internal audit. c. Integrated risk management system governing all financial matters.					
12. Supervision of MFIs from external source is not effective enough: a. Association or Apex body b. MoFEP **c.** BoG					
13. Reporting requirements and frequency of reporting are rather rigid and do not create suitable environment for sustainability of the MFIs.					
14. Offsite monitoring (submission of reports) and on-site monitoring (institution visits and assessments) are really not integrated.					
15. Feedback on financial monitoring reports and references for future actions are rarely provided.					
Implementation challenges					
16. There are difficulties in complying with the regulatory policies in the following areas: a. Minimum capital requirement b. Reporting requirements c. Capital adequacy					
17. There is inadequate support, in regard of policy education and implementation from : a. MoFEP b. BoG c. SEC d. Apex associations					
18. The level of competition from the conventional banks is high.					
19. Human resource and capacity building for MFIs is lacking.					
20. The constant amendment of the banking operating guidelines for MF, and sections therein, is devastating service provision and highly operationally restrictive.					

Section C:

Can you please provide answers to the following; where space provided is insufficient you may attach a new sheet.

21. Please, explain whether regulations are supplemented by additional guidance and how your institution applies these?

....

....

Identify and evaluate the base of supervision applied to the MFIs vis-à-vis the regulatory and operating guidelines from the following:

a. Risk-based;
b. Resource-based:

....

....

22. In your opinion, how effectively are external monitoring and supervision promoting the sustainability of the MFIs?

....

....

23. What are the major constraints imposed by the legal or operating guidelines for MFIs or government regulations?

....

....

24. In your opinion, what major factors do you consider as challenges to the implementation of and adherence to the financial regulatory and monitoring policies and changes therein for MFIs in Ghana; specifically in Accra?

....

....

Thank you.

APPENDIX A4: Ethical Clearance Letter

DUT DURBAN UNIVERSITY OF TECHNOLOGY

FACULTY OF MANAGEMENT SCIENCES

RESEARCH ETHICS COMMITTEE

MANAGEMENT SCIENCES: FACULTY RESEARCH ETHICS COMMITTEE (FREC)

28 November 2015
Student No: 21452750
FREC No: 56/15FREC

Dear Mr KH Quao

DOCTOR OF PHILOSOPHY: MANAGEMENT SCIENCES (BUSINESS ADMINISTRATION)

TITLE: AN INVESTIGATION OF THE FINANCIAL MONITORING POLICIES OF MICROFINANCE INSTITUTIONS IN ACCRA (GHANA)

Please be advised that the FREC Committee has reviewed your proposal and the following decision was made: Ethical Level 2 -Full Approval

Approval has been granted for a period of two years, after which you are required to apply for safety monitoring and annual recertification. Please use the form located at the Faculty. This form must be submitted to the FREC at least 3 months before the ethics approval for the study expires.

Any adverse events [serious or minor] which occur in connection with this study and/or which may alter its ethical consideration must be reported to the FREC according to the FREC SOP's.
Please note that ANY amendments in the approved proposal require the approval of the FREC as outlined in the FREC SOP's.

Yours Sincerely

[redacted]

Prof N Dorasamy
Chairperson: FREC

APPENDIX B: Frequency and Correlation Tables

Reliability Statistics	
Cronbach's Alpha	N of Items
0.768	10

Reliability Statistics

Cronbach's Alpha	N of Items
0.714	15

Reliability Statistics

Cronbach's Alpha	N of Items
0.899	10

Region of operations

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Greater Accra	63	100.0	100.0	100.0

Year operations began

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1978	1	1.6	1.6	1.6
	1979	1	1.6	1.6	3.2
	2003	1	1.6	1.6	4.8
	2006	3	4.8	4.8	9.7
	2007	3	4.8	4.8	14.5
	2008	2	3.2	3.2	17.7
	2009	8	12.7	12.9	30.6
	2010	10	15.9	16.1	46.8
	2011	12	19.0	19.4	66.1
	2012	14	22.2	22.6	88.7
	2013	3	4.8	4.8	93.5
	2014	3	4.8	4.8	98.4
	2015	1	1.6	1.6	100.0
	Total	62	98.4	100.0	
Missing	System	1	1.6		
Total		63	100.0		

Legal form

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Rural Bank	1	1.6	1.6	1.6
	NBFI	59	93.7	96.7	98.4
	NGO	1	1.6	1.6	100.0
	Total	61	96.8	100.0	
Missing	System	2	3.2		
Total		63	100.0		

Tier level of operation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	1.6	1.7	1.7
	2	57	90.5	98.3	100.0
	Total	58	92.1	100.0	
Missing	System	5	7.9		
Total		63	100.0		

Loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	59	93.7	100.0	100.0
Missing	System	4	6.3		
Total		63	100.0		

Deposits

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	48	76.2	100.0	100.0
Missing	System	15	23.8		
Total		63	100.0		

Susu

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	26	41.3	100.0	100.0
Missing	System	37	58.7		
Total		63	100.0		

Savings

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	25	39.7	100.0	100.0
Missing	System	38	60.3		
Total		63	100.0		

Investment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	10	15.9	100.0	100.0
Missing	System	53	84.1		
Total		63	100.0		

Number of loan accounts

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18	1	1.6	1.9	1.9
	50	1	1.6	1.9	3.7
	55	1	1.6	1.9	5.6
	101	1	1.6	1.9	7.4
	105	1	1.6	1.9	9.3
	110	1	1.6	1.9	11.1
	142	1	1.6	1.9	13.0
	204	1	1.6	1.9	14.8
	205	1	1.6	1.9	16.7
	247	1	1.6	1.9	18.5
	337	1	1.6	1.9	20.4
	373	1	1.6	1.9	22.2
	392	1	1.6	1.9	24.1
	400	1	1.6	1.9	25.9
	412	1	1.6	1.9	27.8
	432	1	1.6	1.9	29.6
	452	1	1.6	1.9	31.5
	482	1	1.6	1.9	33.3
	500	1	1.6	1.9	35.2
	531	1	1.6	1.9	37.0
	550	1	1.6	1.9	38.9
	611	1	1.6	1.9	40.7
	621	1	1.6	1.9	42.6
	622	1	1.6	1.9	44.4
	699	1	1.6	1.9	46.3
	711	1	1.6	1.9	48.1
	886	1	1.6	1.9	50.0
	931	1	1.6	1.9	51.9
	939	1	1.6	1.9	53.7
	1050	1	1.6	1.9	55.6
	1113	1	1.6	1.9	57.4
	1121	1	1.6	1.9	59.3

		Frequency	Percent	Valid Percent	Cumulative Percent
	1132	1	1.6	1.9	61.1
	1211	1	1.6	1.9	63.0
	1225	1	1.6	1.9	64.8
	1345	1	1.6	1.9	66.7
	1358	1	1.6	1.9	68.5
	1507	1	1.6	1.9	70.4
	1531	1	1.6	1.9	72.2
	1560	1	1.6	1.9	74.1
	1589	1	1.6	1.9	75.9
	1695	1	1.6	1.9	77.8
	1708	1	1.6	1.9	79.6
	1721	1	1.6	1.9	81.5
	1725	1	1.6	1.9	83.3
	1755	1	1.6	1.9	85.2
	1793	1	1.6	1.9	87.0
	1821	1	1.6	1.9	88.9
	1862	1	1.6	1.9	90.7
	2000	1	1.6	1.9	92.6
	2315	1	1.6	1.9	94.4
	2813	1	1.6	1.9	96.3
	4000	1	1.6	1.9	98.1
	5000	1	1.6	1.9	100.0
	Total	54	85.7	100.0	
Missing	System	9	14.3		
Total		63	100.0		

Number of currently active borrowers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	13	1	1.6	2.4	2.4
	43	1	1.6	2.4	4.8
	60	1	1.6	2.4	7.1
	75	1	1.6	2.4	9.5
	127	1	1.6	2.4	11.9
	172	1	1.6	2.4	14.3
	173	1	1.6	2.4	16.7
	200	1	1.6	2.4	19.0
	213	1	1.6	2.4	21.4
	215	1	1.6	2.4	23.8
	291	1	1.6	2.4	26.2
	311	1	1.6	2.4	28.6
	353	1	1.6	2.4	31.0
	364	1	1.6	2.4	33.3

	367	1	1.6	2.4	35.7
	431	1	1.6	2.4	38.1
	493	1	1.6	2.4	40.5
	563	1	1.6	2.4	42.9
	591	1	1.6	2.4	45.2
	600	1	1.6	2.4	47.6
	611	1	1.6	2.4	50.0
	621	1	1.6	2.4	52.4
	676	1	1.6	2.4	54.8
	718	1	1.6	2.4	57.1
	756	1	1.6	2.4	59.5
	769	1	1.6	2.4	61.9
	906	1	1.6	2.4	64.3
	962	1	1.6	2.4	66.7
	966	1	1.6	2.4	69.0
	988	1	1.6	2.4	71.4
	1001	1	1.6	2.4	73.8
	1004	1	1.6	2.4	76.2
	1131	1	1.6	2.4	78.6
	1255	1	1.6	2.4	81.0
	1426	1	1.6	2.4	83.3
	1437	1	1.6	2.4	85.7
	1447	1	1.6	2.4	88.1
	1475	1	1.6	2.4	90.5
	1534	1	1.6	2.4	92.9
	1548	1	1.6	2.4	95.2
	2912	1	1.6	2.4	97.6
	4500	1	1.6	2.4	100.0
	Total	42	66.7	100.0	
Missing	System	21	33.3		
Total		63	100.0		

Number of savings account

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	30	1	1.6	1.8	1.8
	183	1	1.6	1.8	3.6
	217	1	1.6	1.8	5.4
	220	1	1.6	1.8	7.1
	292	1	1.6	1.8	8.9
	301	1	1.6	1.8	10.7
	305	1	1.6	1.8	12.5
	311	2	3.2	3.6	16.1

	316	1	1.6	1.8	17.9
	321	1	1.6	1.8	19.6
	357	1	1.6	1.8	21.4
	371	1	1.6	1.8	23.2
	378	1	1.6	1.8	25.0
	380	1	1.6	1.8	26.8
	400	1	1.6	1.8	28.6
	401	1	1.6	1.8	30.4
	416	1	1.6	1.8	32.1
	417	1	1.6	1.8	33.9
	421	1	1.6	1.8	35.7
	433	1	1.6	1.8	37.5
	472	1	1.6	1.8	39.3
	590	1	1.6	1.8	41.1
	685	1	1.6	1.8	42.9
	709	1	1.6	1.8	44.6
	716	1	1.6	1.8	46.4
	719	1	1.6	1.8	48.2
	786	1	1.6	1.8	50.0
	797	1	1.6	1.8	51.8
	802	1	1.6	1.8	53.6
	859	1	1.6	1.8	55.4
	873	1	1.6	1.8	57.1
	978	1	1.6	1.8	58.9
	1003	1	1.6	1.8	60.7
	1010	1	1.6	1.8	62.5
	1200	1	1.6	1.8	64.3
	1208	1	1.6	1.8	66.1
	1250	1	1.6	1.8	67.9
	1263	1	1.6	1.8	69.6
	1336	1	1.6	1.8	71.4
	1410	1	1.6	1.8	73.2
	1680	1	1.6	1.8	75.0
	1870	1	1.6	1.8	76.8
	2000	1	1.6	1.8	78.6
	2111	1	1.6	1.8	80.4
	2155	1	1.6	1.8	82.1
	2311	1	1.6	1.8	83.9
	3151	2	3.2	3.6	87.5
	3201	1	1.6	1.8	89.3
	3350	1	1.6	1.8	91.1
	3953	1	1.6	1.8	92.9

	5450	1	1.6	1.8	94.6
	6000	1	1.6	1.8	96.4
	6500	1	1.6	1.8	98.2
	16658	1	1.6	1.8	100.0
	Total	56	88.9	100.0	
Missing	System	7	11.1		
Total		63	100.0		

Number of current voluntary savers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	15	1	1.6	2.4	2.4
	20	1	1.6	2.4	4.8
	25	1	1.6	2.4	7.1
	35	1	1.6	2.4	9.5
	61	1	1.6	2.4	11.9
	83	1	1.6	2.4	14.3
	90	1	1.6	2.4	16.7
	96	1	1.6	2.4	19.0
	97	1	1.6	2.4	21.4
	99	1	1.6	2.4	23.8
	130	1	1.6	2.4	26.2
	146	1	1.6	2.4	28.6
	150	1	1.6	2.4	31.0
	152	1	1.6	2.4	33.3
	179	1	1.6	2.4	35.7
	185	1	1.6	2.4	38.1
	207	1	1.6	2.4	40.5
	211	1	1.6	2.4	42.9
	231	1	1.6	2.4	45.2
	233	1	1.6	2.4	47.6
	267	1	1.6	2.4	50.0
	300	1	1.6	2.4	52.4
	321	1	1.6	2.4	54.8
	369	1	1.6	2.4	57.1
	383	1	1.6	2.4	59.5
	452	1	1.6	2.4	61.9
	462	1	1.6	2.4	64.3
	664	1	1.6	2.4	66.7
	678	1	1.6	2.4	69.0
	800	1	1.6	2.4	71.4
	950	1	1.6	2.4	73.8
	1000	1	1.6	2.4	76.2

	1020	1	1.6	2.4	78.6
	1109	1	1.6	2.4	81.0
	1120	1	1.6	2.4	83.3
	1247	1	1.6	2.4	85.7
	1378	1	1.6	2.4	88.1
	1430	1	1.6	2.4	90.5
	1500	1	1.6	2.4	92.9
	3200	1	1.6	2.4	95.2
	3217	1	1.6	2.4	97.6
	4328	1	1.6	2.4	100.0
	Total	42	66.7	100.0	
Missing	System	21	33.3		
Total		63	100.0		

Total number of members

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	4	1	1.6	3.2	3.2
	5	1	1.6	3.2	6.5
	95	1	1.6	3.2	9.7
	110	1	1.6	3.2	12.9
	500	1	1.6	3.2	16.1
	831	1	1.6	3.2	19.4
	893	1	1.6	3.2	22.6
	916	1	1.6	3.2	25.8
	1013	1	1.6	3.2	29.0
	1019	1	1.6	3.2	32.3
	1054	1	1.6	3.2	35.5
	1413	1	1.6	3.2	38.7
	1430	1	1.6	3.2	41.9
	1467	1	1.6	3.2	45.2
	1700	1	1.6	3.2	48.4
	1796	1	1.6	3.2	51.6
	1878	1	1.6	3.2	54.8
	1969	1	1.6	3.2	58.1
	2031	1	1.6	3.2	61.3
	2068	1	1.6	3.2	64.5
	2269	1	1.6	3.2	67.7
	2432	1	1.6	3.2	71.0
	3026	1	1.6	3.2	74.2
	3120	1	1.6	3.2	77.4
	3175	1	1.6	3.2	80.6
	3390	1	1.6	3.2	83.9

	3517	1	1.6	3.2	87.1
	3603	1	1.6	3.2	90.3
	3903	1	1.6	3.2	93.5
	3922	1	1.6	3.2	96.8
	4013	1	1.6	3.2	100.0
	Total	31	49.2	100.0	
Missing	System	32	50.8		
Total		63	100.0		

Total number of staff

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	6	3	4.8	4.8	4.8
	7	1	1.6	1.6	6.5
	8	3	4.8	4.8	11.3
	9	4	6.3	6.5	17.7
	10	2	3.2	3.2	21.0
	11	3	4.8	4.8	25.8
	12	7	11.1	11.3	37.1
	13	1	1.6	1.6	38.7
	14	1	1.6	1.6	40.3
	15	1	1.6	1.6	41.9
	16	2	3.2	3.2	45.2
	17	1	1.6	1.6	46.8
	18	2	3.2	3.2	50.0
	19	1	1.6	1.6	51.6
	20	1	1.6	1.6	53.2
	21	2	3.2	3.2	56.5
	23	1	1.6	1.6	58.1
	24	1	1.6	1.6	59.7
	25	2	3.2	3.2	62.9
	27	2	3.2	3.2	66.1
	28	1	1.6	1.6	67.7
	29	2	3.2	3.2	71.0
	30	1	1.6	1.6	72.6
	31	1	1.6	1.6	74.2
	32	1	1.6	1.6	75.8
	33	1	1.6	1.6	77.4
	35	2	3.2	3.2	80.6
	36	1	1.6	1.6	82.3
	39	1	1.6	1.6	83.9
	41	2	3.2	3.2	87.1
	50	1	1.6	1.6	88.7

		Frequency	Percent	Valid Percent	Cumulative Percent
	60	1	1.6	1.6	90.3
	61	1	1.6	1.6	91.9
	68	1	1.6	1.6	93.5
	96	1	1.6	1.6	95.2
	100	1	1.6	1.6	96.8
	180	1	1.6	1.6	98.4
	215	1	1.6	1.6	100.0
	Total	62	98.4	100.0	
Missing	System	1	1.6		
Total		63	100.0		

Q2a

There are sufficiently clear financial regulations available for microfinance institutions.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	1.6	1.6	1.6
	Disagree	3	4.8	4.8	6.5
	Neutral	7	11.1	11.3	17.7
	Agree	37	58.7	59.7	77.4
	Strongly Agree	14	22.2	22.6	100.0
	Total	62	98.4	100.0	
Missing	System	1	1.6		
Total		63	100.0		

Q2a

Licensing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	17	27.0	27.4	27.4
	Disagree	27	42.9	43.5	71.0
	Neutral	2	3.2	3.2	74.2
	Agree	11	17.5	17.7	91.9
	Strongly Agree	5	7.9	8.1	100.0
	Total	62	98.4	100.0	
Missing	System	1	1.6		
Total		63	100.0		

Q2b

Minimum capital requirement

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	19	30.2	30.6	30.6
	Disagree	25	39.7	40.3	71.0
	Neutral	4	6.3	6.5	77.4

	Agree	10	15.9	16.1	93.5
	Strongly Agree	4	6.3	6.5	100.0
	Total	62	98.4	100.0	
Missing	System	1	1.6		
Total		63	100.0		

Q2c

Capital adequacy

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	13	20.6	21.3	21.3
	Disagree	27	42.9	44.3	65.6
	Neutral	6	9.5	9.8	75.4
	Agree	12	19.0	19.7	95.1
	Strongly Agree	3	4.8	4.9	100.0
	Total	61	96.8	100.0	
Missing	System	2	3.2		
Total		63	100.0		

Q2d

Liquidity management

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	9.5	10.0	10.0
	Disagree	30	47.6	50.0	60.0
	Neutral	11	17.5	18.3	78.3
	Agree	10	15.9	16.7	95.0
	Strongly Agree	3	4.8	5.0	100.0
	Total	60	95.2	100.0	
Missing	System	3	4.8		
Total		63	100.0		

Q2e

Branching

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	22	34.9	36.1	36.1
	Disagree	16	25.4	26.2	62.3
	Neutral	4	6.3	6.6	68.9
	Agree	14	22.2	23.0	91.8
	Strongly Agree	5	7.9	8.2	100.0
	Total	61	96.8	100.0	
Missing	System	2	3.2		
Total		63	100.0		

Q2f

Supervision and compliance					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	9.5	10.2	10.2
	Disagree	25	39.7	42.4	52.5
	Neutral	16	25.4	27.1	79.7
	Agree	10	15.9	16.9	96.6
	Strongly Agree	2	3.2	3.4	100.0
	Total	59	93.7	100.0	
Missing	System	4	6.3		
Total		63	100.0		

Q3

There is sufficient stakeholder participation in policy-making procedures.					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	11	17.5	18.3	18.3
	Disagree	20	31.7	33.3	51.7
	Neutral	13	20.6	21.7	73.3
	Agree	13	20.6	21.7	95.0
	Strongly Agree	3	4.8	5.0	100.0
	Total	60	95.2	100.0	
Missing	System	3	4.8		
Total		63	100.0		

Q4

There is adequate supplementary guideline or information on the relevant regulations.					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	16	25.4	26.2	26.2
	Disagree	22	34.9	36.1	62.3
	Neutral	5	7.9	8.2	70.5
	Agree	13	20.6	21.3	91.8
	Strongly Agree	5	7.9	8.2	100.0
	Total	61	96.8	100.0	
Missing	System	2	3.2		
Total		63	100.0		

Q5

The regulations are constantly reviewed to meet the current market needs of the MFIs.					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	3.2	3.3	3.3

		Frequency	Percent	Valid Percent	Cumulative Percent
	Disagree	6	9.5	10.0	13.3
	Neutral	14	22.2	23.3	36.7
	Agree	33	52.4	55.0	91.7
	Strongly Agree	5	7.9	8.3	100.0
	Total	60	95.2	100.0	
Missing	System	3	4.8		
Total		63	100.0		

Q6

There is no co-operation and close dialogue between the police-making bodies and the individual institutions.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	4.8	5.0	5.0
	Disagree	16	25.4	26.7	31.7
	Neutral	2	3.2	3.3	35.0
	Agree	19	30.2	31.7	66.7
	Strongly Agree	20	31.7	33.3	100.0
	Total	60	95.2	100.0	
Missing	System	3	4.8		
Total		63	100.0		

Q7

The tier categorisation system enhances service delivery and regulatory compliance.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	18	28.6	29.0	29.0
	Disagree	17	27.0	27.4	56.5
	Neutral	14	22.2	22.6	79.0
	Agree	10	15.9	16.1	95.2
	Strongly Agree	3	4.8	4.8	100.0
	Total	62	98.4	100.0	
Missing	System	1	1.6		
Total		63	100.0		

Q8a

Governance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	8	12.7	12.9	12.9
	Disagree	28	44.4	45.2	58.1
	Neutral	17	27.0	27.4	85.5
	Agree	7	11.1	11.3	96.8
	Strongly Agree	2	3.2	3.2	100.0

		Frequency	Percent	Valid Percent	Cumulative Percent
	Total	62	98.4	100.0	
Missing	System	1	1.6		
Total		63	100.0		

Q8b

Funding

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	8	12.7	12.9	12.9
	Disagree	25	39.7	40.3	53.2
	Neutral	20	31.7	32.3	85.5
	Agree	8	12.7	12.9	98.4
	Strongly Agree	1	1.6	1.6	100.0
	Total	62	98.4	100.0	
Missing	System	1	1.6		
Total		63	100.0		

Q9

Compliance to operational guidelines is inadequate.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	3.2	3.2	3.2
	Disagree	14	22.2	22.6	25.8
	Neutral	9	14.3	14.5	40.3
	Agree	26	41.3	41.9	82.3
	Strongly Agree	11	17.5	17.7	100.0
	Total	62	98.4	100.0	
Missing	System	1	1.6		
Total		63	100.0		

Q10

Always maintain adequate proportion of assets to satisfy the capital adequacy and liquidity management requirements.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	7	11.1	11.5	11.5
	Neutral	3	4.8	4.9	16.4
	Agree	44	69.8	72.1	88.5
	Strongly Agree	7	11.1	11.5	100.0
	Total	61	96.8	100.0	
Missing	System	2	3.2		
Total		63	100.0		

Q11a

Well-balanced governance.					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	7	11.1	11.3	11.3
	Neutral	10	15.9	16.1	27.4
	Agree	36	57.1	58.1	85.5
	Strongly Agree	9	14.3	14.5	100.0
	Total	62	98.4	100.0	
Missing	System	1	1.6		
Total		63	100.0		

Q11b

Internal audit.					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	5	7.9	8.1	8.1
	Neutral	10	15.9	16.1	24.2
	Agree	36	57.1	58.1	82.3
	Strongly Agree	11	17.5	17.7	100.0
	Total	62	98.4	100.0	
Missing	System	1	1.6		
Total		63	100.0		

Q11c

Integrated risk management system governing all financial matters.					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	13	20.6	21.3	21.3
	Neutral	13	20.6	21.3	42.6
	Agree	28	44.4	45.9	88.5
	Strongly Agree	7	11.1	11.5	100.0
	Total	61	96.8	100.0	
Missing	System	2	3.2		
Total		63	100.0		

Q12a

Association or Apex body					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	5	7.9	8.5	8.5
	Disagree	5	7.9	8.5	16.9
	Neutral	2	3.2	3.4	20.3
	Agree	21	33.3	35.6	55.9
	Strongly Agree	26	41.3	44.1	100.0

		Frequency	Percent	Valid Percent	Cumulative Percent
	Total	59	93.7	100.0	
Missing	System	4	6.3		
Total		63	100.0		

Q12b

MoFEP

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	9.5	9.5	9.5
	Disagree	6	9.5	9.5	19.0
	Neutral	9	14.3	14.3	33.3
	Agree	27	42.9	42.9	76.2
	Strongly Agree	15	23.8	23.8	100.0
	Total	63	100.0	100.0	

Q12c

BoG

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	7	11.1	11.5	11.5
	Disagree	6	9.5	9.8	21.3
	Neutral	2	3.2	3.3	24.6
	Agree	19	30.2	31.1	55.7
	Strongly Agree	27	42.9	44.3	100.0
	Total	61	96.8	100.0	
Missing	System	2	3.2		
Total		63	100.0		

Q13

Reporting requirements and frequency of reporting are rather rigid and do not create suitable environment for sustainability of the MFIs.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	3.2	3.2	3.2
	Disagree	10	15.9	15.9	19.0
	Neutral	8	12.7	12.7	31.7
	Agree	25	39.7	39.7	71.4
	Strongly Agree	18	28.6	28.6	100.0
	Total	63	100.0	100.0	

Q14

Offsite monitoring (submission of reports) and on-site monitoring (institution visits and assessments) are really not integrated.					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	3.2	3.2	3.2
	Disagree	7	11.1	11.1	14.3
	Neutral	11	17.5	17.5	31.7
	Agree	23	36.5	36.5	68.3
	Strongly Agree	20	31.7	31.7	100.0
	Total	63	100.0	100.0	

Q15

Feedback on financial monitoring reports and references for future actions are rarely provided.					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	6.3	6.5	6.5
	Disagree	10	15.9	16.1	22.6
	Neutral	5	7.9	8.1	30.6
	Agree	34	54.0	54.8	85.5
	Strongly Agree	9	14.3	14.5	100.0
	Total	62	98.4	100.0	
Missing	System	1	1.6		
Total		63	100.0		

Q16a

Minimum capital requirement					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	4.8	4.8	4.8
	Disagree	11	17.5	17.7	22.6
	Neutral	2	3.2	3.2	25.8
	Agree	22	34.9	35.5	61.3
	Strongly Agree	24	38.1	38.7	100.0
	Total	62	98.4	100.0	
Missing	System	1	1.6		
Total		63	100.0		

Q16b

Reporting requirements					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	4.8	4.9	4.9
	Disagree	8	12.7	13.1	18.0
	Neutral	4	6.3	6.6	24.6
	Agree	23	36.5	37.7	62.3

		Frequency	Percent	Valid Percent	Cumulative Percent
	Strongly Agree	23	36.5	37.7	100.0
	Total	61	96.8	100.0	
Missing	System	2	3.2		
Total		63	100.0		

Q16c

Capital adequacy

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	1.6	1.6	1.6
	Disagree	13	20.6	21.3	23.0
	Neutral	3	4.8	4.9	27.9
	Agree	26	41.3	42.6	70.5
	Strongly Agree	18	28.6	29.5	100.0
	Total	61	96.8	100.0	
Missing	System	2	3.2		
Total		63	100.0		

Q17a

MoFEP

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	6.3	6.7	6.7
	Disagree	6	9.5	10.0	16.7
	Neutral	9	14.3	15.0	31.7
	Agree	32	50.8	53.3	85.0
	Strongly Agree	9	14.3	15.0	100.0
	Total	60	95.2	100.0	
Missing	System	3	4.8		
Total		63	100.0		

Q17b

BoG

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	6.3	6.6	6.6
	Disagree	10	15.9	16.4	23.0
	Neutral	2	3.2	3.3	26.2
	Agree	25	39.7	41.0	67.2
	Strongly Agree	20	31.7	32.8	100.0
	Total	61	96.8	100.0	
Missing	System	2	3.2		
Total		63	100.0		

Q17c

SEC					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	4.8	4.8	4.8
	Disagree	7	11.1	11.3	16.1
	Neutral	28	44.4	45.2	61.3
	Agree	16	25.4	25.8	87.1
	Strongly Agree	8	12.7	12.9	100.0
	Total	62	98.4	100.0	
Missing	System	1	1.6		
Total		63	100.0		

Q17d

Apex associations					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	3.2	3.6	3.6
	Disagree	8	12.7	14.5	18.2
	Neutral	3	4.8	5.5	23.6
	Agree	26	41.3	47.3	70.9
	Strongly Agree	16	25.4	29.1	100.0
	Total	55	87.3	100.0	
Missing	System	8	12.7		
Total		63	100.0		

Q18

The level of competition from the conventional banks is high.					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	4.8	4.8	4.8
	Disagree	1	1.6	1.6	6.3
	Neutral	1	1.6	1.6	7.9
	Agree	27	42.9	42.9	50.8
	Strongly Agree	31	49.2	49.2	100.0
	Total	63	100.0	100.0	

Q19

Human resource and capacity building for MFIs is lacking.					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	6.3	6.3	6.3
	Disagree	9	14.3	14.3	20.6
	Neutral	3	4.8	4.8	25.4
	Agree	39	61.9	61.9	87.3
	Strongly Agree	8	12.7	12.7	100.0
	Total	63	100.0	100.0	

Q20

The constant amendment of the banking operating guidelines for MF, and sections therein, is devastating service provision and highly operationally restrictive.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	4.8	4.8	4.8
	Disagree	12	19.0	19.4	24.2
	Neutral	4	6.3	6.5	30.6
	Agree	21	33.3	33.9	64.5
	Strongly Agree	22	34.9	35.5	100.0
	Total	62	98.4	100.0	
Missing	System	1	1.6		
Total		63	100.0		

Qualitative data

Please, explain whether regulations are supplemented by additional guidance and how your institution applies these?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		4	6.3	6.3	6.3
	Always new rules come; Inadequate information on regulations	1	1.6	1.6	7.9
	Apply regulations to operations; Supplementary information is available	1	1.6	1.6	9.5
	Apply the regulation through GAMC; Attend seminars; BoG recommendations are available	1	1.6	1.6	11.1
	Apply the regulations to be in line with best practice; Quarterly workshops give more insight into what is required of us; BoG website contains other information	1	1.6	1.6	12.7
	Attend meetings convened by the GAMC; Discuss regulating issues; Inadequate information from BoG	1	1.6	1.6	14.3
	Attend workshops regular to discuss regulatory issues; Comply with relevant regulations	1	1.6	1.6	15.9
	BoG and GAMC gives some supplementary information; We comply with these regulations to avoid penalties	1	1.6	1.6	17.5
	BoG provides some guidelines; Applies such guidelines strictly	1	1.6	1.6	19.0
	Comply with all regulations; Receive information from GAMC on regulations	1	1.6	1.6	20.6
	Comply with regulation for evaluation purposes; Keep to the policies	1	1.6	1.6	22.2
	Comply with the regulations to be in line with the rules; Receive minimal briefings from GAMC	1	1.6	1.6	23.8
	Comply with the regulations to be in line with the rules; Regulations are unclear	1	1.6	1.6	25.4
	GAMC supports the Bank of Ghana; Inadequate attentions to the MFIs	1	1.6	1.6	27.0
	Hardly receive information on the regulations; No material is supplied	1	1.6	1.6	28.6
	Institutions operate to satisfy their clients; No education on the regulations; No supplementary information is available to use	1	1.6	1.6	30.2
	Licensing requirements are available; No additions	1	1.6	1.6	31.7
	Never receive any additional guidelines; No education on available rules	1	1.6	1.6	33.3
	No	4	6.3	6.3	39.7
	No information available to us	1	1.6	1.6	41.3
	No other material provided	1	1.6	1.6	42.9
	Notification from GAMC mostly; BoG hardly gives any additional information	1	1.6	1.6	44.4
	Occasional training by the BoG	1	1.6	1.6	46.0
	Only information on increase in capital	1	1.6	1.6	47.6
	Operate based on experience and client demand; No supplementary information	1	1.6	1.6	49.2
	Rarely receive any other information except for rules regarding minimum capital	1	1.6	1.6	50.8
	Receive circulars pertaining to the regulations	1	1.6	1.6	52.4
	Receive monthly circulars; No education on the regulations	2	3.2	3.2	55.6
	Receive no additional documentation except for initial licensing	1	1.6	1.6	57.1

documents				
Receive no education nor guidelines; Comply with available regulations; Rely on internal controls and market experience	1	1.6	1.6	58.7
Receive notices and circulars on regulations	1	1.6	1.6	60.3
Rely on experience; Comply with all regulations; Attend all GAMC meetings for briefings;	1	1.6	1.6	61.9
Rely on industry experience; Operate within the available regulations; No education is provided	1	1.6	1.6	63.5
Rely on internal control and experience; No education provided; No supplementary material	1	1.6	1.6	65.1
Rely on internal controls; Comply to avoid infractions; Inadequate information	1	1.6	1.6	66.7
Rely on internal controls; No other guidelines are provided	1	1.6	1.6	68.3
Rely on internal controls; No other guidelines are provided; Comply with available regulations	1	1.6	1.6	69.8
Rely on internal controls; Only information on increase in capital; No education on guidelines	1	1.6	1.6	71.4
Rely on internal controls; Other guidelines are provided by GAMC	1	1.6	1.6	73.0
Rely on internal controls; Outcomes of GAMC meetings; No additional information from BoG	1	1.6	1.6	74.6
Rely on internal regulations; Follow BoGs; No supplementary guidelines	1	1.6	1.6	76.2
Rely on internal regulations; Follow BoGs; No supplementary guidelines; Use market experience	1	1.6	1.6	77.8
Rely on internal regulations; We comply with Bank of Ghana guidelines	1	1.6	1.6	79.4
Rely on management experience; Gather information from peers; No supplementary information	1	1.6	1.6	81.0
Rely on market experience; Attend GAMC meetings for briefings	1	1.6	1.6	82.5
Rely on our internal controls	1	1.6	1.6	84.1
Rely on our internal controls; Information of changes in regulations only	1	1.6	1.6	85.7
Rely on our internal controls; No additional guidelines; Workshops are mostly not relevant to operations	1	1.6	1.6	87.3
Rely on our resources; Follow the regulations and market trends	1	1.6	1.6	88.9
Some supplementary information available; We apply the rules to the letter; We make returns regularly;	1	1.6	1.6	90.5
Support from GAMC; Creation of collateral registry; Check credit status of client through the lender bureau	1	1.6	1.6	92.1
Use internal audit to ensure controls; BoG queries are followed	1	1.6	1.6	93.7
We comply with the Bank of Ghana regulations; Some additional guidance is provided; Market experience drives our operations too	1	1.6	1.6	95.2
We comply with yearly reviews; Rely on internal controls; No addition guidelines available to us	1	1.6	1.6	96.8
We do our own thing; No other guidelines provided	1	1.6	1.6	98.4
We only comply with the Bank of Ghana regulations	1	1.6	1.6	100.0
Total	63	100.0	100.0	

Risk-based

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		8	12.7	12.7	12.7
	Apply the risk measures	1	1.6	1.6	14.3
	Collateral	1	1.6	1.6	15.9
	Compliance to credit levels	1	1.6	1.6	17.5
	Credit and operational risk; Employ adequate measures to dissipate the impact of such risks	1	1.6	1.6	19.0
	Credit management rules; Insurance against theft	1	1.6	1.6	20.6
	Demand for collateral for loans	1	1.6	1.6	22.2
	Examination of book by internal auditors; Adherence to rules for audit; Safeguarding assets	1	1.6	1.6	23.8
	General reserves stated; Loan limits are also set for all categories of clients	1	1.6	1.6	25.4
	General reserves; Minimum liquid capital; Loan caps	1	1.6	1.6	27.0
	General reserves; Minimum paid up capital	1	1.6	1.6	28.6
	Have internal audit;	1	1.6	1.6	30.2
	High risk base reserves;	1	1.6	1.6	31.7
	Internal audit and controls	1	1.6	1.6	33.3
	Internal audit in place; Strong Board also in place	1	1.6	1.6	34.9
	Loan cap for categories of clients; Reserve ratios	1	1.6	1.6	36.5
	Loan caps for all categories; Minimum capital	2	3.2	3.2	39.7
	Loan caps to individuals and staff; Minimum capital increases	1	1.6	1.6	41.3
	Loan caps to limit exposures; Aging analysis; limit on related party exposures	2	3.2	3.2	44.4
	Loan caps to limit exposures; limit on related party exposures; Capital requirements	1	1.6	1.6	46.0
	Loan caps; Capital requirements	1	1.6	1.6	47.6
	Loan caps; Capital requirements; Minimum reserve	1	1.6	1.6	49.2
	Loan caps; Reserve ratios	1	1.6	1.6	50.8
	Minimum Capital requirement to remain on BoG register	1	1.6	1.6	52.4
	Minimum capital requirement; Capital adequacy ratio; Loan cap for all categories of clients	2	3.2	3.2	55.6
	Minimum operating capital	1	1.6	1.6	57.1
	Minimum required capital	1	1.6	1.6	58.7
	Minimum reserves; Minimum capital requirements; Loan caps	1	1.6	1.6	60.3
	No interest in risk management by MFIs	1	1.6	1.6	61.9
	Regular reports on operations; Capital adequacy	1	1.6	1.6	63.5
	Reserve ratios; Loan caps	1	1.6	1.6	65.1
	Reserve policies	1	1.6	1.6	66.7
	Reserve ratio; Loan caps for categorises of clients;	1	1.6	1.6	68.3

Reserve rations; Initial capital requirement	1	1.6	1.6	69.8
Reserve ratios	3	4.8	4.8	74.6
Reserve ratios, Loan caps	1	1.6	1.6	76.2
Reserve ratios; Capital adequacy ratio; Loan caps	1	1.6	1.6	77.8
Reserve ratios; Capital required; Loan sizes	1	1.6	1.6	79.4
Reserve ratios; Capital requirements	1	1.6	1.6	81.0
Reserve ratios; Loan caps	2	3.2	3.2	84.1
Reserve ratios; Loan caps for categorises of clients	3	4.8	4.8	88.9
Reserve ratios; Loan caps for categorises of clients; Minimum capital requirements	1	1.6	1.6	90.5
Reserve ratios; Loan size for categories of clients	1	1.6	1.6	92.1
Reserve ratios; Minimum capital requirement	1	1.6	1.6	93.7
Reserve ratios; Minimum capital requirement; Loan caps	1	1.6	1.6	95.2
Reserve requirements; Loan sizes; Minimum capital required	1	1.6	1.6	96.8
Risk-based rules are difficult	1	1.6	1.6	98.4
Submit BoG reports regularly	1	1.6	1.6	100.0
Total	63	100.0	100.0	

Resource-based

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		14	22.2	22.2	22.2
	Adequate capital; Quality of management and staff	1	1.6	1.6	23.8
	Board composition; Management and staff	1	1.6	1.6	25.4
	Board presence; Management and staff experience	1	1.6	1.6	27.0
	Borrowings	1	1.6	1.6	28.6
	Capital Adequacy ratios; Liquidity measurement; Submission of prudential returns	1	1.6	1.6	30.2
	Capital; Savings mobilisation	1	1.6	1.6	31.7
	Experience and quality of management	2	3.2	3.2	34.9
	Experience of management	4	6.3	6.3	41.3
	Experience of management and qualifications	1	1.6	1.6	42.9
	Experience of management; Board qualification and composition; Staff qualification	1	1.6	1.6	44.4
	Experience of management; quality of offices	3	4.8	4.8	49.2
	Experience of management; quality of offices; Customer deposits	1	1.6	1.6	50.8
	Governance and management quality	2	3.2	3.2	54.0
	Human resources; Physical facilities	1	1.6	1.6	55.6
	Initial capital requirement; Experience and quality of management	1	1.6	1.6	57.1
	Investments	1	1.6	1.6	58.7
	Liquidity reserves	1	1.6	1.6	60.3

Loan records; Recovery of loans on maturity	1	1.6	1.6	61.9
Management and staff quality	1	1.6	1.6	63.5
Management and staff quality; physical infrastructure	1	1.6	1.6	65.1
Minimum capital requirement; Institutional ability	1	1.6	1.6	66.7
Minimum capital; Employ qualified staff	1	1.6	1.6	68.3
Minimum paid capital; Other investments	1	1.6	1.6	69.8
Minimum paid capital; Qualification of staff and management	1	1.6	1.6	71.4
Minimum paid up capital; Qualification and experience of management and staff	1	1.6	1.6	73.0
Qualification of management and staff	4	6.3	6.3	79.4
Qualification of management and staff; Initial inspection of office premises	1	1.6	1.6	81.0
Quality of human resources	2	3.2	3.2	84.1
Quality of management	1	1.6	1.6	85.7
Quality of management and infrastructure	1	1.6	1.6	87.3
Quality of management and staff	1	1.6	1.6	88.9
Required capital; Management and staff qualification	1	1.6	1.6	90.5
Resource requirements are threatening	1	1.6	1.6	92.1
Seed fund; Staff and equipment	1	1.6	1.6	93.7
Staff and infrastructure	2	3.2	3.2	96.8
Total capital; Qualified staff and infrastructure	1	1.6	1.6	98.4
Unqualified staff	1	1.6	1.6	100.0
Total	63	100.0	100.0	

In your opinion, how effectively are external monitoring and supervision promoting the sustainability of the MFIs?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		6	9.5	9.5	9.5
	BoG and GAMC are not keenly involved in our operations; It is self-regulation regime	1	1.6	1.6	11.1
	BoG visits only when suspicious of reports; Present regular returns	1	1.6	1.6	12.7
	Effective because it points out our weaknesses; Results are educative	1	1.6	1.6	14.3
	Effective due to quarterly reviews	1	1.6	1.6	15.9
	Effectives because of external audits; Internal checks are also very good	1	1.6	1.6	17.5
	Examine MFIs books periodically; Effective because licenses are withdrawn if the rules are contravened; Levy for non-compliance	1	1.6	1.6	19.0
	External monitoring is inadequate; Compliance is compromised; MFIs operate according to market demands	1	1.6	1.6	20.6
	External monitoring is inadequate; monitoring must be more frequent	1	1.6	1.6	22.2

	Inadequate site visits; Harsh reporting rules	1	1.6	1.6	23.8
	Ineffective external monitoring; Seldom visit to sites	1	1.6	1.6	25.4
	Insufficient attention to monitoring and supervision	1	1.6	1.6	27.0
	Investments are monitored; Bog does supervise to keep us on our toes	1	1.6	1.6	28.6
	Less than minimum attention is given to supervision and monitoring	1	1.6	1.6	30.2
	Make regular reports; BoG officials visit on case bases	1	1.6	1.6	31.7
	Monitoring is not effective	1	1.6	1.6	33.3
	Monitoring is not effective to sustain the industry; BoG lacks strong manpower	1	1.6	1.6	34.9
	Monitoring is not effective; The BoG requests regular submission of our reports only	1	1.6	1.6	36.5
	Monitoring not effective; Inspection team does not visit	1	1.6	1.6	38.1
	Monitoring not effective; Must be improved in all areas	1	1.6	1.6	39.7
	No close supervision; Submit reports on time	1	1.6	1.6	41.3
	No support from regulators; No feedback on our returns	1	1.6	1.6	42.9
	Not effective	1	1.6	1.6	44.4
	Not hopeful	1	1.6	1.6	46.0
	Operational risk supervision is now being done; Feedback is encouraging	1	1.6	1.6	47.6
	Poor monitoring	1	1.6	1.6	49.2
	Poor onsite visits; Make regular submission of reports only	1	1.6	1.6	50.8
	Poor; We submit our returns regularly; Site visits are rare	1	1.6	1.6	52.4
	Regular reports only; No site visits	1	1.6	1.6	54.0
	Seldom visit by BoG officials; Supervision is not effective; Site visits are selective	1	1.6	1.6	55.6
	Submit reports regularly; No site visits	1	1.6	1.6	57.1
	Supervision and monitoring is offsite through regular reports to BoG; Lack of feedback on our reports	1	1.6	1.6	58.7
	Supervision is effective; We keep in line with the regular reports; Receive adequate onsite visits	1	1.6	1.6	60.3
	Supervision is not effective; No site visits; No feedback on our regular reports	1	1.6	1.6	61.9
	Supervision is not effective; Always meet the regular report deadlines to avoid penalty	1	1.6	1.6	63.5
	Supervision is not effective; Official visit are rarely experienced	1	1.6	1.6	65.1
	Supervision is not effective; Officials only do periodic visits; Frequent monitoring is need to ensure sanity	1	1.6	1.6	66.7
	Supervision is not effective; Regular reports are demanded; GAMC convenes regular meetings	1	1.6	1.6	68.3
	Supervision is not effective; Selective onsite visits; Present regular reports	1	1.6	1.6	69.8
	Supervision is not helping; Seldom visits; No structural support; Somewhat free entry into the market	1	1.6	1.6	71.4
	Supervision is not strong; Lack of manpower	1	1.6	1.6	73.0
	Supervision is poor; No visits to sites; No feedback on returns	1	1.6	1.6	74.6
	Supervision is poor; Receives no feedback on reports submitted; No site visits received	1	1.6	1.6	76.2
	Supervision is poor; Seldom visits to sites; No feedback on returns	2	3.2	3.2	79.4

	Supervision is very poor; Official visit never happened; We submit our normal returns regularly	1	1.6	1.6	81.0
	Supervision not effective; BoG is not inspecting enough; Left on our own	1	1.6	1.6	82.5
	Supervision not effective; Limited site visits; Demands weekly and monthly reports only	1	1.6	1.6	84.1
	Supervision not effective; Regular submission of returns only; Onsite visits are rare	1	1.6	1.6	85.7
	Supervision not effective; Selective site visit by Bank of Ghana and Association	1	1.6	1.6	87.3
	Supervision not effective; Selective site visit by Bank of Ghana and Association; We only submit our weekly and other returns	1	1.6	1.6	88.9
	Unimpressive supervision; Seldom site visits	1	1.6	1.6	90.5
	Very poor	1	1.6	1.6	92.1
	Very weak monitoring	1	1.6	1.6	93.7
	We are on our toes because we are audited	1	1.6	1.6	95.2
	We make regular reports to BoG; Official visits are not made	1	1.6	1.6	96.8
	We submit our returns on time to avoid disciplinary measures; BoG Site visits are limited	1	1.6	1.6	98.4
	Weak external monitoring	1	1.6	1.6	100.0
	Total	63	100.0	100.0	

What are the major constraints imposed by the legal or operating guidelines for MFIs or government regulations?

		Frequency	Per cent	Valid Per cent	Cumulative Percent
Valid		6	9.5	9.5	9.5
	Additional capital for opening branches; tedious report standards	1	1.6	1.6	11.1
	Additional capital to open branches; Annual license renewal	1	1.6	1.6	12.7
	All rules are stringent	1	1.6	1.6	14.3
	Capital regulations are affecting our liquidity	1	1.6	1.6	15.9
	Capital requirement is revised constantly; High level of competition; Insufficient control leading to nefarious operations	1	1.6	1.6	17.5
	Capital requirements; Reporting standards are high	1	1.6	1.6	19.0
	Closing down of unregistered MFIS	1	1.6	1.6	20.6
	Constant increase in the minimum capital; Difficulty obtaining or renewing license	1	1.6	1.6	22.2
	Constant increase in the minimum capital; Needs additional capital to open a branch	2	3.2	3.2	25.4
	Continuous increase in capital base; Additional capital to open branches on opening branches; Annual renew of licenses	1	1.6	1.6	27.0
	Continuous increase in capital base; Restrictions on opening branches	1	1.6	1.6	28.6
	Escalating growth of MFIs	1	1.6	1.6	30.2
	Frequent increase in minimum capital; Less clear tier categorization	1	1.6	1.6	31.7

	High capital base	1	1.6	1.6	33.3
	Increase in capital requirements	1	1.6	1.6	34.9
	Increase in capital requirements yearly; Additional cost to open branches	3	4.8	4.8	39.7
	Increase in capital requirements yearly; Additional cost to open branches; Funding restrictions from the universal banks; Restrictions on treasury decisions	1	1.6	1.6	41.3
	Increase in minimum capital	2	3.2	3.2	44.4
	Increase in minimum capital annually; Additional cost of opening branches	1	1.6	1.6	46.0
	Increase in minimum capital arbitrarily	1	1.6	1.6	47.6
	Increase in minimum capital arbitrary; Restrictions on branches	1	1.6	1.6	49.2
	Increase in minimum capital requirement; Additional cost for opening branches	1	1.6	1.6	50.8
	Increase in minimum capital requirements	1	1.6	1.6	52.4
	Increase in minimum capital requirements; Additional costs for opening branches	2	3.2	3.2	55.6
	Increase in minimum capital yearly; Addition capital for opening branches	1	1.6	1.6	57.1
	Increase in minimum capital; Additional cost for opening branches	2	3.2	3.2	60.3
	Increase in minimum capital; Less clear tier system; To much demand for reports	1	1.6	1.6	61.9
	Increase in minimum capital; Reporting modalities cumbersome	1	1.6	1.6	63.5
	Increase in minimum paid up capital; Further capital for opening branches; Poor regulation creating room for illegal operations	1	1.6	1.6	65.1
	Increase in the minimum capital almost annually; Tiers system is confusing	1	1.6	1.6	66.7
	Increase in the minimum capital; Strict regulatory requirements	1	1.6	1.6	68.3
	Increasing minimum capital; High cost of borrowing; Obtaining operating license is difficult	1	1.6	1.6	69.8
	Large increase in the base capital creating inconvenience	1	1.6	1.6	71.4
	Limitations on coverage areas; Loans limits are restrictive; Level of deposits to accept from individuals	1	1.6	1.6	73.0
	Minimum capital is too high; Branching cost is too high too	1	1.6	1.6	74.6
	Minimum capital requirement may cause most MFIs to close down	1	1.6	1.6	76.2
	Minimum capital requirements	1	1.6	1.6	77.8
	Minimum capital requirements increasing every year; Additional cost for opening branches	1	1.6	1.6	79.4
	Minimum capital requirements; Additional cost for opening branches	1	1.6	1.6	81.0
	Minimum capital requirements; Loan caps for individuals	1	1.6	1.6	82.5
	Minimum capital requirements; Top up capital for opening branches	1	1.6	1.6	84.1
	Minimum entry capital; Branching capital	1	1.6	1.6	85.7
	Minimum requirements are harsh; Tier system is less clear; Additional capital to open branches is harsh	1	1.6	1.6	87.3
	Regular increase in the minimum capital; Branch restrictions; Illegal operations; Competition	1	1.6	1.6	88.9
	Regulations involves high level of bureaucracy; High	1	1.6	1.6	90.5

	cost due to changes in regulations				
	Restrictions on opening branches	1	1.6	1.6	92.1
	Restrictions on opening branches; Minimum capital requirement	1	1.6	1.6	93.7
	Review of the minimum capital regularly; Top up monies for making up the minimum capital; Additional capital for opening branches	1	1.6	1.6	95.2
	Tedious reporting; Additional capital requirements	1	1.6	1.6	96.8
	Tough licensing requirements; Minimum Capital increases; Restrictions on MFI products; High National Stability levy	1	1.6	1.6	98.4
	Tough licensing requirements; Restrictions on products; Minimum capital requirements; Levies such as National stability levy	1	1.6	1.6	100.0
	Total	63	100.0	100.0	

In your opinion, what major factors do you consider as challenges to the implementation of and adherence to the financial regulatory and monitoring policies and changes therein for MFIs in Ghana; specifically in Accra?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		8	12.7	12.7	12.7
	Attitude of most MFIs disrepute the industry	1	1.6	1.6	14.3
	Cost of capital is high; high level of inflation	1	1.6	1.6	15.9
	Cost of funding is high; High level of competition in the sector; Institutions running away with people's money; High default rate; Lack of government support	1	1.6	1.6	17.5
	Cost of Funding is high; Yearly license renewal; High level of competition in the sector; Minimum capital requirements	1	1.6	1.6	19.0
	Expensive funds from the commercial banks; High level of competition; Poor supervision; Unlicensed operation promoted by large capital requirements	1	1.6	1.6	20.6
	High cost of capital; high level of competition; Unclear regulation	1	1.6	1.6	22.2
	High cost of capital; Poor supervision; Lack of skills enhancement programmes	1	1.6	1.6	23.8
	High cost of funding; Competition is high; Problem of cross-tier activities; large number of unlicensed operations	1	1.6	1.6	25.4
	High cost of funding; Cost of annual license renewal; Poor supervision	1	1.6	1.6	27.0
	High cost of funding; Difficult to comply with annual license renewal; High competition in the sector	1	1.6	1.6	28.6
	High cost of funding; Difficult to comply with annual license renewal; High competition in the sector; Regulation is not clear; Unlicensed operators are posing threat	1	1.6	1.6	30.2
	High cost of funding; High	1	1.6	1.6	31.7
	High cost of funding; High competition from the commercial banks; Loss of client interests; Large number of illegal operations; High level of inflation	1	1.6	1.6	33.3
	High cost of funding; High level of competition; Larger	1	1.6	1.6	34.9

	numbers of unlicensed operations; Cost of annual license renewal				
	High cost of funding; High level of competition; Poor supervision; Larger numbers of unlicensed operations; Loss of reputation; High interest rates	1	1.6	1.6	36.5
	High cost of funding; Increase in illegal operations; Loss of client interest; Lack of supervision and regular checks; Unqualified management; High level of loan defaults	1	1.6	1.6	38.1
	High cost of funding; Interest rates regulations to limit fraud risks; Strict restrictions on Human resource capital	1	1.6	1.6	39.7
	High cost of funding; Loss of reputation; Competition is high; Cost of licensing is high	1	1.6	1.6	41.3
	High cost of funding; Loss of reputation; High level of competition; Large amount of illegal operators; Unclear regulation	1	1.6	1.6	42.9
	High cost of funding; Poor supervision from BoG; High level of inflation; High number of illegal operations	1	1.6	1.6	44.4
	High cost of funds; High level of bad debts	1	1.6	1.6	46.0
	High cost of operation; High cost of capital; Labour turnover is also high	1	1.6	1.6	47.6
	High level of competition between the MFIs and the big banks; High base capital	1	1.6	1.6	49.2
	High level of competition in the industry; Large number of unlicensed operations; Lack of funding for MFIs; High cost of funding; High default rate	1	1.6	1.6	50.8
	High level of competition; Lack of funding; High cost of funding; Large unlicensed operators	1	1.6	1.6	52.4
	High level of competition; Large number of illegal operations; Poor supervision; Lack skills enhancement programmes; Lack of relevant information	1	1.6	1.6	54.0
	High level of competition; Operations of unlicensed businesses; Less clear rules	1	1.6	1.6	55.6
	High level of competition; Operations of unlicensed businesses; High inflation rates	1	1.6	1.6	57.1
	High minimum capital; Loss of reputation due to illegal activities	1	1.6	1.6	58.7
	High minimum initial capital; Poor supervision; Too much competition	1	1.6	1.6	60.3
	High start-up capital; Lack of collaboration between the BoG and GAMC	1	1.6	1.6	61.9
	Ignored in policy formulation; Limited time to adopt policies; Forceful implementation	1	1.6	1.6	63.5
	Increase competition from the commercial banks; Inadequate funds; Unscrupulous operations; overdependence on other institutions for funds	1	1.6	1.6	65.1
	Increase in the minimum capital; Quality of staff is a problem; High competition from the commercial banks; Large number of illegal operations	1	1.6	1.6	66.7
	Institutions defrauding the public	1	1.6	1.6	68.3
	Lack of control and supervision; Influx of unlicensed operations; High level of competition; Arbitral increases in the minimum capital; Lack of cooperation and consultation between the Bog and the MFIs	1	1.6	1.6	69.8
	Lack of supervision; Lack of skills enhancement programmes; High interest rates	1	1.6	1.6	71.4
	Large number of illegal operations; High level of competition; Insufficient guidelines; Continuous revision of the minimum capital	1	1.6	1.6	73.0

	Large number of illegal operations; High level of competition; Lack of funds	1	1.6	1.6	74.6
	Large number of unlicensed operations; High level of competition; lack of operating capital	1	1.6	1.6	76.2
	Low capital base; Quick and strict compliance	1	1.6	1.6	77.8
	Low capital base; Quick and strict compliance; High competition from the universal banks; Loss of interest by clients; Renewal of licenses annually	1	1.6	1.6	79.4
	Minimum capital cap is too high; Large unlicensed operation; High competition; Poor control from BoG	1	1.6	1.6	81.0
	Minimum capital to operate is a challenge	1	1.6	1.6	82.5
	Poor communication; Inadequate awareness; The concept is misunderstood by many operators	1	1.6	1.6	84.1
	Poor quality human capital; High cost of funding	1	1.6	1.6	85.7
	Poor quality management; Rapid growth of MFIs in the region; Large number of unlicensed operations	1	1.6	1.6	87.3
	Poor supervision; Less clear regulation	1	1.6	1.6	88.9
	Poor supervision; Renewing licenses annually; Lack of funds; Less clear regulations; Inexperience management; High level of competition	1	1.6	1.6	90.5
	Poor supervision; Rules are difficult; Inadequate resources from the banks; Insufficient site visits	1	1.6	1.6	92.1
	Regulations are unclear; High level of competition; Cross-tier operations	1	1.6	1.6	93.7
	Regulations should be clearly spelt out; Unlicensed operations should sanctioned	1	1.6	1.6	95.2
	Unclear regulations; Unlicensed operations; High cost of funding	1	1.6	1.6	96.8
	Weak Supervision; High cost of funding; High competition from the commercial banks; Lack of funds	1	1.6	1.6	98.4
	Weak Supervision; High cost of funding; High competition from the commercial banks; Renew licenses annually; Tier system is less clear	1	1.6	1.6	100.0
	Total	63	100.0	100.0	

Chi-square test

	Chi-Square	df	Asymp. Sig.
Name of the MFI	59.063[a]	1	0.000
Year operations began	52.903[b]	12	0.000
Legal form	110.295[c]	2	0.000
Tier level of operation	54.069[d]	1	0.000
Report for Year ended	44.308[e]	1	0.000
Number of loan accounts	.000[f]	53	1.000
Number of currently active borrowers	.000[g]	41	1.000
Number of savings account	1.857[h]	53	1.000
Number of currently voluntary savers	.000[g]	41	1.000
Total number of members	.000[i]	30	1.000
Total number of staff	31.161[j]	37	0.739
There are sufficiently clear financial regulations available for microfinance institutions.	67.000[k]	2	0.000
Licensing	44.258[k]	2	0.000
Minimum capital requirement	41.935[k]	2	0.000
Capital adequacy	30.525[c]	2	0.000
Liquidity management	19.300[l]	2	0.000
Branching	28.557[c]	2	0.000
Supervision and compliance	10.203[m]	2	0.006
There is sufficient stakeholder participation in policy-making procedures.	9.300[l]	2	0.010
There is adequate supplementary guideline or information on the relevant regulations.	27.180[c]	2	0.000
The regulations are constantly reviewed to meet the current market needs of the MFIs.	25.200[l]	2	0.000
There is no co-operation and close dialogue between the police-making bodies and the individual institutions.	34.300[l]	2	0.000
The tier categorisation system enhances service delivery and regulatory compliance.	14.935[k]	2	0.001
Funding	13.968[k]	2	0.001
Governance	18.613[k]	2	0.000
Compliance to operational guidelines is inadequate.	20.548[k]	2	0.000
Always maintain adequate proportion of assets to satisfy the capital adequacy and liquidity management requirements.	69.770[c]	2	0.000
Well-balanced governance.	43.194[k]	2	0.000
Internal audit.	50.935[k]	2	0.000
Integrated risk management system governing all financial matters.	15.869[c]	2	0.000
Association or Apex body	58.610[m]	2	0.000
MoFEP	31.714[n]	2	0.000

BoG	51.574[c]	2	0.000
Reporting requirements and frequency of reporting are rather rigid and do not create suitable environment for sustainability of the MFIs.	34.952[n]	2	0.000
Offsite monitoring (submission of reports) and on-site monitoring (institution visits and assessments) are really not integrated.	34.667[n]	2	0.000
Feedback on financial monitoring reports and references for future actions are rarely provided.	38.161[k]	2	0.000
Minimum capital requirement	50.065[k]	2	0.000
Reporting requirements	49.803[c]	2	0.000
Capital adequacy	44.295[c]	2	0.000
MoFEP	33.100[l]	2	0.000
BoG	48.426[c]	2	0.000
SEC	8.645[k]	2	0.013
Apex associations	47.164[o]	2	0.000
The level of competition from the conventional banks is high.	98.000[n]	2	0.000
Human resource and capacity building for MFIs is lacking.	50.667[n]	2	0.000
The constant amendment of the banking operating guidelines for MF, and sections therein, is devastating service provision and highly operationally restrictive.	39.129[k]	2	0.000

Hypothsis tests: Objective one

Obj1b_Policy * Obj1a_Assessment Cross-tabulation

			Obj1a_Assessment				
			2	3	4	5	Total
Obj1b_Policy	2	Count	5	10	1	0	16
		% within Obj1a_Assessment	20.8%	40.0%	7.7%	0.0%	25.4%
	3	Count	17	8	7	0	32
		% within Obj1a_Assessment	70.8%	32.0%	53.8%	0.0%	50.8%
	4	Count	2	7	5	0	14
		% within Obj1a_Assessment	8.3%	28.0%	38.5%	0.0%	22.2%
	5	Count	0	0	0	1	1
		% within Obj1a_Assessment	0.0%	0.0%	0.0%	100.0%	1.6%
Total		Count	24	25	13	1	63
		% within Obj1a_Assessment	100.0%	100.0%	100.0%	100.0%	100.0%

Chi-Square Tests						
	Value	df	Asymptotic Significance (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	74.546[a]	9	.000	.000		
Likelihood Ratio	22.531	9	.007	.002		
Fisher's Exact Test	21.649			.003		
Linear-by-Linear Association	5.556[b]	1	.018	.023	.012	.005
N of Valid Cases	63					

a. 9 cells (56.3%) have expected count less than 5. The minimum expected count is .02.

b. The standardized statistic is 2.357.

Hypothesis test: Objective two

Obj2b_Monitoring * Obj2a_Implementation Crosstabulation			Obj2a_Implementation				
			2	3	4	5	Total
Obj2b_Monitoring	2	Count	1	2	0	0	3
		% within Obj2a_Implementation	25.0%	4.1%	0.0%	0.0%	4.8%
	3	Count	2	13	2	0	17
		% within Obj2a_Implementation	50.0%	26.5%	25.0%	0.0%	27.0%
	4	Count	0	31	6	2	39
		% within Obj2a_Implementation	0.0%	63.3%	75.0%	100.0%	61.9%
	5	Count	1	3	0	0	4
		% within Obj2a_Implementation	25.0%	6.1%	0.0%	0.0%	6.3%
Total		Count	4	49	8	2	63
		% within Obj2a_Implementation	100.0%	100.0%	100.0%	100.0%	100.0%

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	11.316[a]	9	.255	.277		
Likelihood Ratio	12.513	9	.186	.129		
Fisher's Exact Test	11.807			.160		
Linear-by-Linear Association	1.395[b]	1	.238	.300	.156	.072
N of Valid Cases	63					

a. 14 cells (87.5%) have expected count less than 5. The minimum expected count is .10.

b. The standardized statistic is 1.181.

Hypothesis test: Ojective three

Obj3_Evaluation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	1.6	1.6	1.6
	2	6	9.5	9.5	11.1
	3	14	22.2	22.2	33.3
	4	34	54.0	54.0	87.3
	5	8	12.7	12.7	100.0
	Total	63	100.0	100.0	

Test Statistics

	Obj3_Evaluation
Chi-Square	52.317[a]
df	4
Asymp. Sig.	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 12.6.

CORRELATIONS

Correlations

			Obj1a Assessment	Obj1b Policy	Obj2a Implementation	Obj2b Monitoring	Obj3 Evaluation
Spearman's rho	Obj1a Assessment	Correlation Coefficient	1.000				
		Sig. (2-tailed)	.				
		N	63				
	Obj1b Policy	Correlation Coefficient	.234	1.000			
		Sig. (2-tailed)	.065	.			
		N	63	63			
	Obj2a Implementation	Correlation Coefficient	.376**	.138	1.000		
		Sig. (2-tailed)	.002	.279	.		
		N	63	63	63		
	Obj2b Monitoring	Correlation Coefficient	-.135	-.243	.141	1.000	
		Sig. (2-tailed)	.290	.055	.271	.	
		N	63	63	63	63	
	Obj3 Evaluation	Correlation Coefficient	-.213	-.400**	-.086	.610**	1.000
		Sig. (2-tailed)	.094	.001	.505	.000	.
		N	63	63	63	63	63

**. Correlation is significant at the 0.01 level (2-tailed).

CORRELATIONS