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Impact Of Financial Regulations On Microfinance Institutions Sustainability In Ghana

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Abstract: *This article examines the "impact of financial regulations on the microfinance institutions sustainability in Ghana". The purpose is to investigate financial regulations effects on sustainability of the institutions. The study used primary and secondary data and the primary data was gathered with the help of a structured questionnaires administered to the regulators, management, policymakers and to the customers. The data was analyzed using Statistical Packages for Social Sciences and Microsoft Excel. The results revealed that regulations and policies have negative and positive impacts on the sector. They contributed immensely towards the institutions' development through training and capacity building, regulation and supervision, protecting customers/depositors, ensuring financial soundness and financial inclusion. Again, the results show that the factors that determine microfinance sustainability are positively and significantly driven by minimum capital requirement, regulators activities, credit default, government policies, and capital structure. Furthermore, the results demonstrated microfinance challenges as not complying with regulatory guidelines, improper risk management, poor technology, and lack of Government support. While examines the challenges facing financial regulations as cost of regulations, political influence, inadequate staff, and poor information dissemination. We recommend regulators, policymakers, and all key stakeholders to support microfinance institutions in the country for long term sustainability.*

Keywords — *Financial Regulations, Microfinance Institutions, Sustainability, Economic Development, Ghana*

[1]1. Introduction

The Microfinance institution is a very important instrument/tool for reducing poverty, employment creation, financing SMEs with credit, and economic development in African countries and many parts of the world. It is an institution that targets low-income individuals who are mostly in the rural communities through innovative products such as micro-insurance, giving out loans, lending in groups, deposits taking, regular repayment schedules and remittances Yunus, M. (2008).. In this study, the analysis of the Ghanaian economy from the inception of microfinance institutions to the current state of the institution was taken into consideration against the following indicators: Gross Domestic Product (GDP), the growth rate, employment rate, inflation rate, interest rate, unemployment rate, poverty rate, income, and the average wage rate. According to Levy (2000), large companies have more access to financial services than small enterprises and hence the consequences for their growth and development. Microfinance institutions have their objectives, mission, and vision and before any of this can be achieved successfully, there should be a proper and sound regulatory system, and effective policies to govern and monitor the activities of the institutions (BoG, 2013). For example, the microfinance industry in the country needs the financial regulators, the policymakers, the Apex bodies, and other stakeholders to help supervise, monitor, evaluate, and regulate their activities, and to protect the clients. The above when accurately done, can lead to long term sustainability which brings profit and other forms of benefits to the owners, customers, and the societies at large.

Microfinance recently has earned much interest in various meetings and discussions concerning the continuous poverty issues and problems, unemployment issues, income, and promotion of economic growth. The institutions' role is assumed as increasing significantly after the financial crisis. The sub-sector has indicated that the low-income people/poor are viable clients when they are approached financially right way so that, there will be no asymmetric information, which leads to adverse selection, then to moral hazard and other problems and conflict of interest are mitigated. According to Cook and Nixson, (2000), finance and the role it plays is recognized as a vital element in SMEs development. The main purpose of microfinance institution as to do with providing services to the low-income individual and the un-banked population by providing financial services that they lack access to, helping them to sustain their livelihood, help in creating jobs hence reducing their poverty levels as well as improving their business sizes and creating income activities. The more microfinance institutions are established in an area, the more the individuals there benefit from them.

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[1] This article is derived from a thesis submitted to Anadolu University, Eskişehir, Turkey for the award of Doctor of Philosophy in Finance.

The regulators of microfinance institutions believe that the institution is stainable when the profit generated from a loan used in a business or operation is sufficient to cover all costs of operations in the business (Shama and Nepal, 1997). Microfinance came into existence when it was realized that a more percentage of people especially the poor were denied formal banking and are also been denied organized financial services like credit giving, savings, remittances, and insurance (BoG 2007). In Ghana, only a few percentages of people have access to financing as reviewed in the access to finance composite index (Honohan 2007). To have more financial inclusion in a country, lot of financial institution must be established which offers different kinds of products/services at reasonable cost/prices that are supported with the law and regulatory requirement (UNCDF, 2006). Financial inclusion here means every member of a country, whether poor, disabled and disadvantaged or underprivileged must have financial services available in the country. This is worse when considering the people in rural communities with those in urban communities. These movements bring the problem of overcrowding in the cities and these posed a further threat to national security (Hernando 2013). Those people in rural communities have no access to financial services and those who have are minimal as required. Due to the limited access to the formalized banking by the poor and together with a lot of policies and procedures involved in those formal banking sectors, many countries in Africa, not only Ghana have gone the microfinance way which is less restrictive, less in policies and procedures, easy for regulation and supervision and the interest of the poor people in the microfinance institution.

Before the formalization of Microfinance in 1976 through the good work of Muhammed Yunus, the African head of states was making credit available to the active poor in their countries. This was done through Agricultural Development Bank (ADB) and that provide subsidized credit to businesses, farmers and other funds from the program both targeting poor people living in low-income communities. GHAMFIN (2010) the Government support to rural banks, cooperatives credit union and other micro-businesses issue loans/credit to the poor, at the lower interest rate to farmers, though at a point in time due to overdependence on government funding these efforts, failed. Understudies of this nature, the total Micro-credit of the country per the Gross Domestic Product (GDP) rate of the country must be known, as against poverty, unemployment, labor participation, income, interest and exchange rates, and the inflation rate of the country, all must be considered and analyzed thoroughly.

The objectives of this article are to investigate the impact of regulations and policies on microfinance sector development in Ghana. To discuss the factors that determine the sustainability of microfinance institutions in Ghana and assess the challenges facing microfinance institutions and financial regulations in the country. Also, to determine the role of Microfinance in poverty reduction, employment creation, and income-generating activities in Ghana and to examine the effects of microfinance institutions program on small and medium enterprises financing in Ghana.

Finally, even though microfinance institutions can be a major employment provider in developed and underdeveloped countries, still the un-sustainability of the institutions, poverty, and the rate of unemployment is high in Ghana (GLSS, 2006). Recently, the Republic of Ghana Government has given due attention for the microfinance sector, by understanding that MFIs are important avenues to address economic development at the local level by creating employment, reducing poverty, support to small & medium enterprises, creating income-generating activities and increasing welfare and living standards of Ghanaians(GSS, 2002) hence, a need for the institution's proper regulations, monitoring, supervision with appropriate policies, and to revoked licensed of the insolvent microfinance institutions in order to have long term sustainability and profitability in the country.

1.1 Research Problem

- There has been no study in a country that has been published nor submitted to any institution in Ghana establishing the impact of financial regulations on microfinance institutions' sustainability.
- The lack of active poor individuals having financial services/ banking services access and insufficient provision of credit/loan to small and medium enterprises has been identified as a common problem in Ghana.
- Furthermore, poor and ineffective regulations of Microfinance Institutions in the country.
- Unsustainability rate of the microfinance institutions are very alarming in Ghana.
- The revocation or cancellation of microfinance institutions licenses by the regulators is very high and keeps on increasing at an increasing rate.
- A very high collapse rate of the microfinance institutions in the country.

  Hence the need for this study to identify what are the regulations, policies, challenges, causes, and effects, of this un-sustainability and other related financial issues in the country. These were the reasons that gave rise to an in-depth study on microfinance institutions and regulations in the country to find remedies to these financial issues. Therefore, the above was the knowledge gap motivating this article.

1.2 Research Questions

The entire research answers the below questions:

- What impact do regulations and policies have on microfinance sector development?
- Which factors determine microfinance institutions' sustainability in Ghana?
- What challenges are facing microfinance institutions and financial regulation in Ghana?
- Do Microfinance reduce poverty, create employment and generate income for the Poor?
- Does microfinance institutions' program have an effect on SMEs' financing in Ghana?

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1.3 Minimum Capital Requirement in Ghana

The Bank of Ghana's financial regulator increased the minimum capital requirement of the microfinance institutions in the country to help ensure safety, stability, soundness and the protection of the customers and depositors (BoG 2011). The alarming rate of collapse cases of the institutions and the management of the institutions running with the customers' deposits is what also gave rise to the increment of the required amount. Most of the institutions were established with bad intentions and because the regulations were very flexible and moderate, owners and management find their way out. The capital requirement is to make sure that, the institutions do not dominate their holdings or funds with fraudulent investments which can easily increase the default risk and ensure that they have sufficient funds to help sustain operating losses of the institution and still honoring the withdrawals of customers'. In 2015, the minimum capital requirement for a microfinance institution in Ghana is 500, 000 Ghana cedi. Due to the high collapse rate of the institutions, the regulators decided to increase the amount in 2017 by one hundred percent. So, the institution paid 1,000,000.00 Ghana cedi. This did not resolve the problem because the most institution was still illiquid and collapsing. In 2018, minimum capital increases again to 2,000,000.00 Ghana cedi. This amount was required to be paid by all microfinance institutions before the end of December 2018. Failure to comply with this leads to closure and withdrawal of the institutions' licenses. The reasons for the revocation of the licenses was due to corporate governance breaches, customers deposits diversification to other businesses, poor lending services, and regulatory guidelines and requirements non-compliance. During a press release organized by Bank of Ghana in 2019, the regulators are considering increasing the minimum capital requirement of the sub-sector which is currently GH¢2 million, so as to prevent the financial crisis from repeating soon. In the press release was also stated that "the financial regulators are undertaking an effective and comprehensive review of the entire sector through reviewing of the monitoring & supervisory procedures, policies, and the regulatory directives, reserve and minimum requirements for the institutions and also the possible encouragement of the industry through mergers & acquisition willingly by the operators or takeover by the government.

1.4 Revocation of Microfinance Institution Licenses

The licenses issued to most of the microfinance institutions to start a business with was canceled/revoked by the Bank of Ghana Regulators. This was done to seize the operations of fraudulent and non-performing institutions (BoG, 2011). On the 5th of January 2016, the bank of Ghana revoked 70 Microfinance Institution (MFIs) licenses in the country. This was due to solvency of the sub-sector, not able to pay the minimum capital required, unable to pay depositors money and to meet deadlines for their provisional licensing by Bank of Ghana. The above were the reasons that led to the immediate withdrawal of their licenses with immediate effect on the above-stated date. Recently again, on May 31, 2019, the central bank of Ghana with immediate effect withdrawn the licenses of 347 licenses of a microfinance institution in the country. These number (347) was made up of 192 insolvent microfinance institutions and 155 microfinance institution which were insolvent & ceased operations. The microfinance institutions' revocation of the licenses, by Bank of Ghana, was to maintain soundness, and stability of the financial system, and to protect the affected customers of the sector.

1.5 The Impact of the Research

This article titled the "impact of financial regulations on microfinance institutions sustainability in Ghana" serves as a reference for students, academicians, policymakers, microfinance institutions, financial regulators, government and all other interested stakeholders in the study area. Again, the study contributes to knowledge by providing information on the determining factors of microfinance institutions' sustainability, challenges facing microfinance institutions and financial regulations in the country and the impact of financial regulations and government policies to the microfinance sub-sector. Moreover, this research study has contributed to knowledge on microfinance institution's role in the reduction of poverty, and the creation of employment. Finally, it helps to know the positive contribution of a microfinance program on financing SMEs, poverty alleviation and income-generating activities in the country.

2. Related Literature Review

2.1 Theoretical Review

2.1.1Theory of Sustainable Finance

The theory of sustainable Finance by Emerson (2003) came after the theory of traditional finance and it can be seen as the improvement of traditional financial theory. The traditional finance theory is rooted in two different sets of values: financial risk and financial returns matters. Of late, a more generalized theory of finance came up through a sustainable field of finance, which indicated that the traditional finance theory is a very special case of the generalized theory which incorporates important values. Four different trends are contributing to sustainable financial growth. This include:

- The blended value concept by Jed Emerson
- Investing: Recognizing that, the factors of sustainability can be related to a systematic risk:
- Financial innovation for increasing sustainability and
- Infrastructural building for sustainable finance (Emerson 2003).

The traditional financial instruments help to build some financial innovations and two among them include microfinance and crowd funding. Through microfinance program, a number of the poor people are reached and served with products and services. While the crowd funding allows direct, small donations or investments for smaller businesses, not profit-making, and related projects that impact the study and are pooled together. Crowd funding and the microfinance are combined by Kiva, Vittana, and others for the traditional finance of small enterprises in developing countries. The sustainable financial system needs to be built for poor people from three different perspectives. That is financial development, poverty reduction, and enterprise formation and growth.

2.1.2 The Uniting Theory of Microfinance

The theory of uniting microfinance finance is a theory that focuses on joint liability. Here borrowers are grouped, and jointly held responsible /liable for the other in terms of credit default/loan repayment and this serves as a key to a very high credit recovery rate. Ghatak and Guinnane (1999), in their various theoretical reviews, came up with some key mechanisms by which repayments and welfare of credits constrained borrowers could improve through a joint liability. These are the idea that through joint liability the problems or issues lenders face example in customer's loan screening, their monitoring & supervision, auditing & evaluating, enforcement through utilizing of information, dissemination, communication, and the social capital which are in existence among borrowers. The Joint liability is grouped into two categories and it can be interpreted in many ways. The two categories are an explicit and implicit joint liability. With explicit joint liability, the default of one borrower on loan repayment leads to group members to repay on behalf of the borrower. The members all can be threatening to a punishment example the refusal of the other members' future loans and other benefits.

The implicit joint liability also made members and borrowers understand that, when a member of the group defaults on loans, all the group members automatically become ineligible for any other loan now or in the future even if the lending contract did not state that. This joint liability concept works well than the banks due to the following two reasons:

Close-knit who are the community members might have more detail information about each other than the outsiders' members. Banks might have limited punishment for their poor customers who might default on credit given to them for businesses. That is the institutions that provide their poor people with motivations/incentives for them to utilize, get information concerning their customers who are neighbors' to apply delinquent punishment/sanctions that are not financial to the beneficiaries (borrowers) would be better as compared to most traditional/conventional banks.

2.1.3 Female Empowerment Theory

Every microfinance institution's primary aim is to target more women in many cases. This is because it is believed that women can improve the welfare of the family and again able to invest the credit received from banks into a productive venture than men can do because men were known to spend more as compared to women, and they invest less from loan funds. Pitt and Khandker (1998), argued in their study that, women who borrowed funds use those funds efficiently and effectively than men who borrowed.

2.1.4 Financial Intermediation Theory

The theory of financial intermediation is a theory that seeks to explain reasons for financial intermediaries' existence in a financial system in an economy. The intermediaries are mainly tasked with the creation of equilibrium between the spending units, surplus units, and the deficit units. The sole reason for the existence of the theory is due to information asymmetry in the financial intermediation processes that generate imperfections in the market by preventing the investors and the savers to trade directly with one another in an optimal way. Financial intermediation theory is based on both asymmetric information and the agency theory that exist in the microfinance institution as described by the below factors: inadequate information, cost of the transaction and the methods of a regulation adopted (Cuza, 2009).

2.1.5 Economic Empowerment Theory

The economic empowerment theory focused on the microfinance institutions' potential empowerment targeted toward women the credit accessibility of the women while the female empowerment theory focused on improved abilities and the changes which lead to the improved well-being of the women and family. It is a common belief that women's access to finance becomes empowered, financially and socially. According to (Amin et al. (1998)) women being membership in the programs of microfinance all things being equal, is related significantly, and directly positive to women empowerment. While Ehlers and Main (1998) concluded in their analysis on the microenterprise development programs for women who are poor in the United States that, the assistance of microfinance problematic and detrimental. They based their conclusions on the issue that, some women "graduate" or transfer their businesses to the formal sector because of the gender constraints to the type of businesses they are running and lack of appropriate microfinance training. The first step for the cycle of poverty to break out is referred to as through savings which enables women to manage their monies better and to start investing in assets. Savings can be regarded as asset building, and getting customers ready to take loans as well. Savings is seen as the first step for the poor women to absorb greater credit and can be put in enterprises or activities that enhance incomes, future asset, and emergency loans, insurance and cover the women against any loss of an asset, to get an income and to enable the women to continue move upwards

2.1.6 Poverty Eradication Theory

Microfinance institutions' role has been recognized globally as a poverty reduction phenomenon, eradication of poverty and wealth creation among poor people in a plan of action where member states were been required to come up with a national microcredit forum and conference that are proactive in their member countries (Yunus, M. 2007),. There are two schools of thought concerning who should be targeted by a microfinance institution. The poor or the poorest. The first education and view are that the poor and low-income people should be targeted and the second school of thought believes in targeting the poorest. The first reason given by the first school is that the poor are more likely to create income-generating activities from the loans and this can lead to job creation and the income or benefits would be spread to the poorest and the community at large and in that case, microfinance institution would be seen as expanding their financial services, that's reducing poverty on a bigger scale. The second school of thought is seen as the vice versa of the first. Diop, Hillenkamp & Servet, (2007, pp. 33) criticizes the first strategy and concludes that redistribution through employment creation nor the consumption does not in any way benefit the poorest. For the institution to achieve its role as an instrument for poverty reduction, the sub-sector needs to spur self-employment, promote productive activities and with income-generating activities. This in effect is predicted and expected to increase consumption, alleviating the poverty of households and community, and stimulating local economies (GPRS, 2006).. On this very argument, the first assessment logically is to analyze microfinance impact on the borrower's income. The increment of incomes through the creation of self-employment might require small working capital and the other sources of income may be too small to be able to raise surpluses that are investible on their own. Wahid (1994) said the loan/credit facilities that are given to the poor would help to increase their capital which will lead to improved and higher standards of living through income generated activities or investments.

2.1.7 Games Theory of Microfinance

Under this theory, microfinance institution operators consider the idea of group lending.
Most of the microfinance sub-sector consider a group of borrower together and issued loans to them. Individuals' loans were not issued due to the high default rate in single loans. There is a very low rate of default on group loans to borrowers and in case of default, it is easy to claims back the amount. The group borrowers are monitored jointly and contracts are enforced together. Dr. Mohammed Yunus of Grameen Bank uses this group lending model of microfinance which is group-based. That is the borrowers are put in a group of 4 to 7 members which guarantee a good repayment of loans, also allows access to again which is based on successful repayment by all members. The payment of the loans is usually made weekly by members. This type of lending proved to be effective and very efficient in reducing the default rate Yunus, M. (1999). It is one of the best methods of lending that works well for Grameen Bank in Bangladesh and a lot more microfinance sectors are now using it. The model has contributed to the success of several micro institutions and help reduce default and collapse rate since the group members know their members too well and their financial standing.

2.1.8 Economic Theory of Microfinance

An economic theory of microfinance suggests that a repayment schedule by the institutions that are very flexible to the borrowers would benefit them and it would potentially improve their capacity of repayment. On the other hand, it was argued by the microfinance practitioners that, a loan default is prevented by the fiscal discipline imposed through frequent repayments. Among the microfinance borrowers ready to lend/borrow money on regular repayment schedules like weekly, monthly, or quarterly basis. A very flexible schedule would lower the cost of the transaction and not increase the client default. The theorists of economics have been intrigued by the contracts of Grameen bank and there are severally of research on that. One of the researchers is Stiglitz (1990), on how the joint liability works. The repayments of the bank begin just a week after the loan has been issued/offered and it then continues weekly till the loan gets finished and this makes the contract very close to a customer loan than a business loan and it reduces the chances of default risk that most banks take. The borrowers of Grameen bank are 95 percent women and the bank believes that higher women percentage improve social impacts, and it also may reduce the financial risk and default risk of the bank they found out that, women repay their loans better as compared to their husbands. While the traditional/conventional banks lent money to exclusively men, women borrowers happen to be more in the case of Grameen bank and they have seen more reliable customers as compared to their husbands (Khandker 1998).

2.1.9 Microfinance

There are many definitions of the term microfinance. According to researchers and scholars, there is no single definition for micro-financing, it varies based on country perspective. Kimenyi, Wieland, & Von Pischke, (1998), explained micro-financing as the provision of service in a small-scaled both credit and deposits/savings to the active poor & low-income people engaged in farming, fishing, operating in small business / micro-enterprises or medium enterprises, and the goods produced are recycled, sold or traded, service provision, working to earned wages & salaries, commissions, income through renting out vehicles, animal, land, machinery, tools, etc. to other people or groups of people in urban/rural communities in a developing Countries. Robinson (2001) defines micro-financing as services provision like smaller loans, accepting small deposits, micro-insurance, and other banking practices without the issuing of collateral. The trying to improve financial access to smaller savings, smaller credit for low income or active poor households who are not having access to formal banking services is termed microfinance (Schreiner and Colombet 2001).

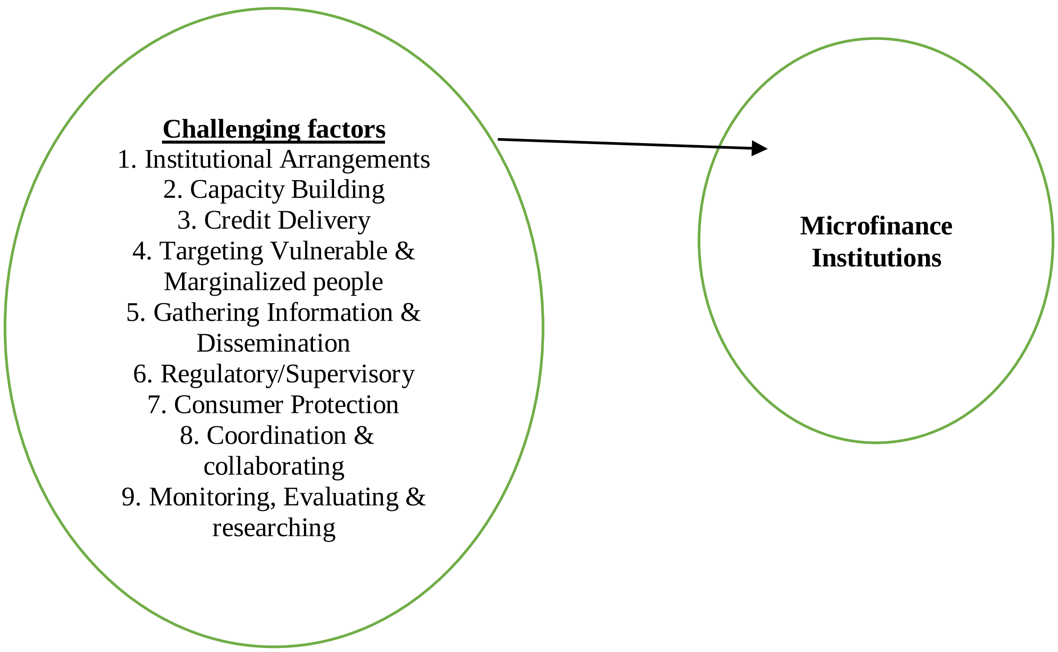
2.1.10 Sustainability

Every part of a financial system needs sustainability and long term survival. The ability of the financial institutions to be in existence forever, serving a large number of customers, enjoying the profit, covering the cost and being socially responsible to the neighbors and the community of existence at large. Kofi Annan, December (2008) said, having access to microfinance which is sustainable will help in reducing the poor people poverty through the employments that the institution creates, credit issuing, which brings about income generation, enabling the poor families to have access to good health care facilities, empowering women, making children attend schools, and to make the choices of their needs. More strategies and techniques must be developed by microfinance institutions management to be able to increase the quantity, range, and volumes of the financial services and products. They should be innovative microfinance products and services for the clients since now microfinance institutions have both social and commercial sustainability of the institutions and their customers that has a better advantage. McGuire and Convoy, (2000) said; microfinance institutions not only a major tool for poverty eradication but it does that on a sustainability manner.

2.2 Conceptual Framework

Microfinance Institutions Challenging Factors in Ghana

INDEPENDENT VARIABLES **DEPENDENT VARIABLE**



Source: GHAMFIN, 2016.

The dependent variable in the above framework is the microfinance institution and the independent variables include the challenging factors indicated above in the left-hand side of the diagram. While some of the factors are internal others are external factors. These are the factor that is very challenging to microfinance institutions in the country as explained by GHAMFIN 2006 report.

3. Methodology

This research on the impact of financial regulations on microfinance institutions' sustainability in Ghana uses both primary and secondary data. The primary data was through surveys and the secondary data was via literature reviews and data from various institutions web sites, published journals, internet, and dissertations.

3.1 Primary Data

Questionnaires and interview guides were used to gather data in some selected microfinance institutions across the ten regions of Ghana. The total sample size of respondents in this research consists of three hundred (300) respondents from the sampled institutions comprising: respondents who are financial regulators, respondents who are Policymakers from (MOF), respondents from Ghana Association of Microfinance Institution Network (GHAMFIN), the staff of Ghana Microfinance Company (GAMC), Management of Microfinance Institutions (MFIs), Employees, Customers, and SMEs operators that deals with the microfinance institutions. The number of interviews above is the interview questionnaires and successful interviews without non-response rate, interview guides and focus group discussions. The questionnaire consists of questions on regulations and policies, sustainability determinant factors, challenges facing financial relations and microfinance institutions, poverty reduction and employment creation, and questions on effects of microfinance institution programs on SMEs' financing. The ethical rights of the respondents were taken into consideration and the participation was also voluntary.

3.1.1 Ethical Considerations

Ethical Clearance Form/letter was given by the university ethical clearance committee members and an introductory letter from the institute which introduces the researcher for the data collection. The Consent of the respondents sought before the interview and the participants were made to understand that Participation in the research is voluntary. Pretesting of the questionnaires was done before the actual data collection. This enables the researcher to identify the mistakes and errors in the questionnaire and the necessary corrections done before the main data collection.

3.2 Secondary Data

The secondary data was also obtained from the home page and web sites of the following institutions:

- Bank of Ghana (BOG)
- Ministry of Finance (MOF)
- Ghana Statistical Service (GSS)
- Ghana Association of Microfinance Institution Network (GHAMFIN),
- Ghana Microfinance Company (GAMC),
- Microfinance Institutions (MFIs)
- Microfinance and Small Loans Company (MASLOC)
- German Development Cooperation (GIZ)
- World Bank
- International Monetary Fund
- UNDP and UNCDF
- Internet, Microfinance Books, published articles, thesis, and dissertation.

Finally, the data was analyzed using Statistical Packages for Social Sciences (SPSS) and Microsoft Excel with the help of statistical tools such as numbers, words, frequencies, percentages, tables, Pie charts, bar charts, and histograms and many more.

4. Results / Data Analysis

Table 1 Demography (The Respondents Basic Profile)

	Status	**Frequency**	**Percentage**
Gender	Male	**183**	**61**
	Female	**117**	**39**
Age of Respondents	15-25	**36**	**12**
	25-35	**96**	**32**
	35-45	**102**	**34**
	45+	**66**	**22**
Marital Status	Married	**141**	**47**
	Singled	**87**	**29**
	Separated	**36**	**12**
	Living together	**24**	**8**
	Divorced	**12**	**4**
Educational Level	SHS	**75**	**25**
	Diploma/HND	**111**	**37**
	Bachelor Degree	**81**	**27**
	Masters	**27**	**9**
	Ph.D.	**6**	**2**

Source**:** Primary data, 2018.

From the field data collected, 61 percent of the respondents are male and 39 percent are female.
12 percent are between the ages 15-25, and 32 percent fall age range 25-35 while 22 percent ages 35-45. Finally, 22 percent are 45 and above years.

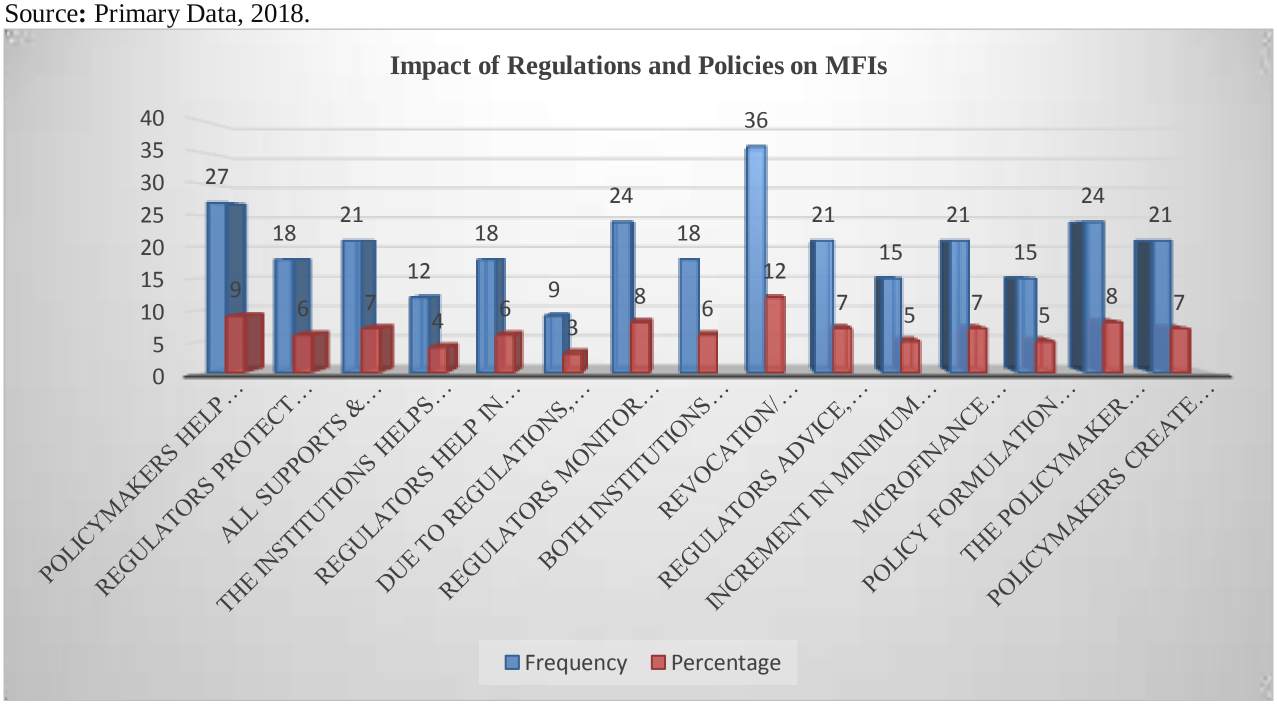
Table 2 Impact of Regulations and Policies on Microfinance Sector Development in Ghana

The table below indicate the imapcts of regulations and policies as mentioned by the participants during the interview.

No	**Impact of Regulation and Policies on MFIs**	**Frequency**	**Percentage**
1	Policymakers help monitor the activities of MFIs in collaboration with MDAs and other stakeholders	**27**	**9**

2	Regulators protect customers rights and safety and ensures quality services delivering	**18**	**6**
3	All supports & assistance from donors and development partners are coordinated by policymakers	**21**	**7**
4	The institutions helps in addressing the stability, safety, soundness, smoothness, and viability of microfinance institutions.	**12**	**4**
5	Regulators help in shaping microfinance institutions	**18**	**6**
6	Due to regulations, microfinance institutions stick to their core values and mandate.	**9**	**3**
7	Regulators monitor and supervise the activities of microfinance institutions	**24**	**8**
8	Both institutions building capacity of microfinance institutions staffs.	**18**	**6**
9	Revocation/ cancellation/withdrawal of licenses from MFIs	**36**	**12**
10	Regulators advice, counseling MFIs on proper records keeping	**21**	**7**
11	Increment in minimum requirement / capital requirement	**15**	**5**
12	Microfinance Institutions staff receive training from the institutions	**21**	**7**
13	Policy formulation and implementation in collaboration with key stakeholders of the institutions.	**15**	**5**
14	The policymaker established and managed forum of MFIs	**24**	**8**
15	Policymakers create an enabling macroeconomic environment and financial Policy Environment in the country.	**21**	**7**

Source**:** Primary Data, 2018.



The above diagram explains further the frequencies and percentages of the responses of the participants during the data collectionas llustrated in the table 2.

Table 3 Factors that Determines Microfinance Institutions Sustainability

Using the questionnaire, the respondents made mentioed of the factors determining microfinance institutions sustainability to include the following in table 3:

No	Factors Determining MFIs Sustainability	Frequency	Percentage
1	High Capital Requirement	**42**	**14**
2	Credit default	**36**	**12**

3	Financial Regulators Activities	**33**	**11**
4	Customers Outreach Level	**6**	**2**
5	Policies of Government	**27**	**9**
6	Inexperience Staff	**15**	**5**
7	Lack of Training	**9**	**3**
8	High Profit Motive	**18**	**6**
9	Inefficiency of Management	**21**	**7**
10	Rate of Interest	**15**	**5**
11	Microfinance Age	**27**	**9**
12	Microfinance Size	**12**	**4**
13	Microfinance Capital Structure	**18**	**6**
14	Microfinance Branches	**12**	**4**
15	Delivery of Service	**9**	**3**

Source**:** Primary Data, 2018.

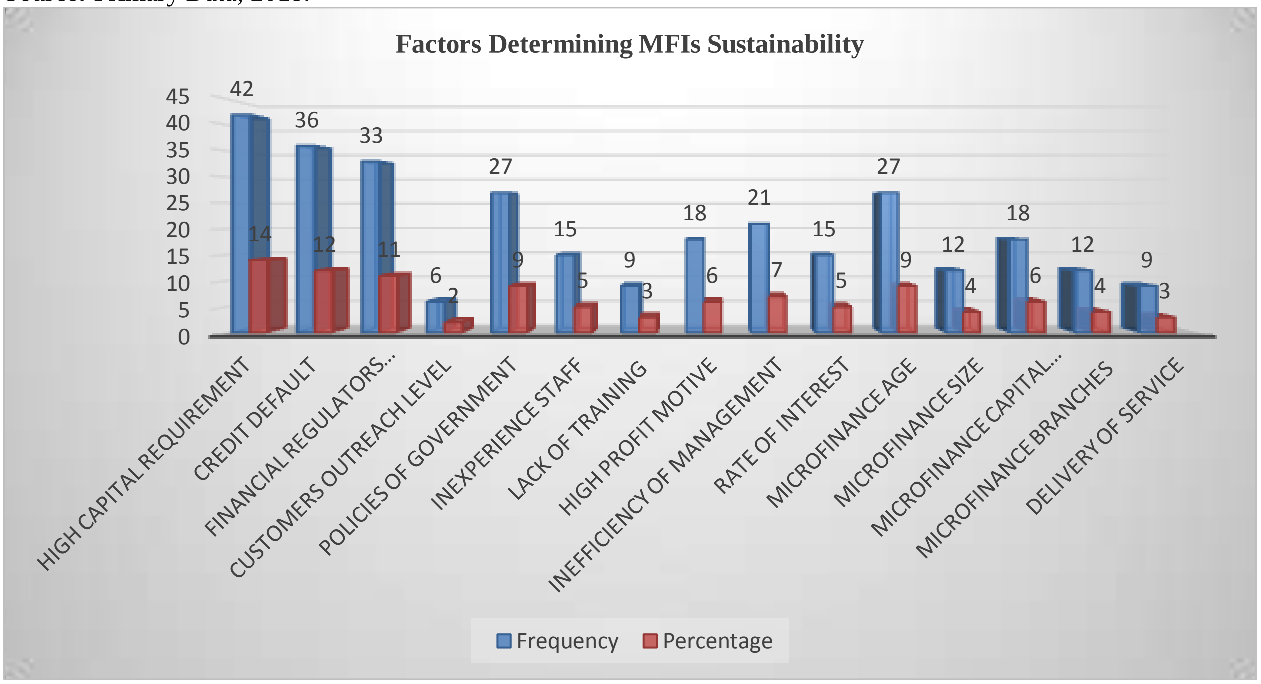
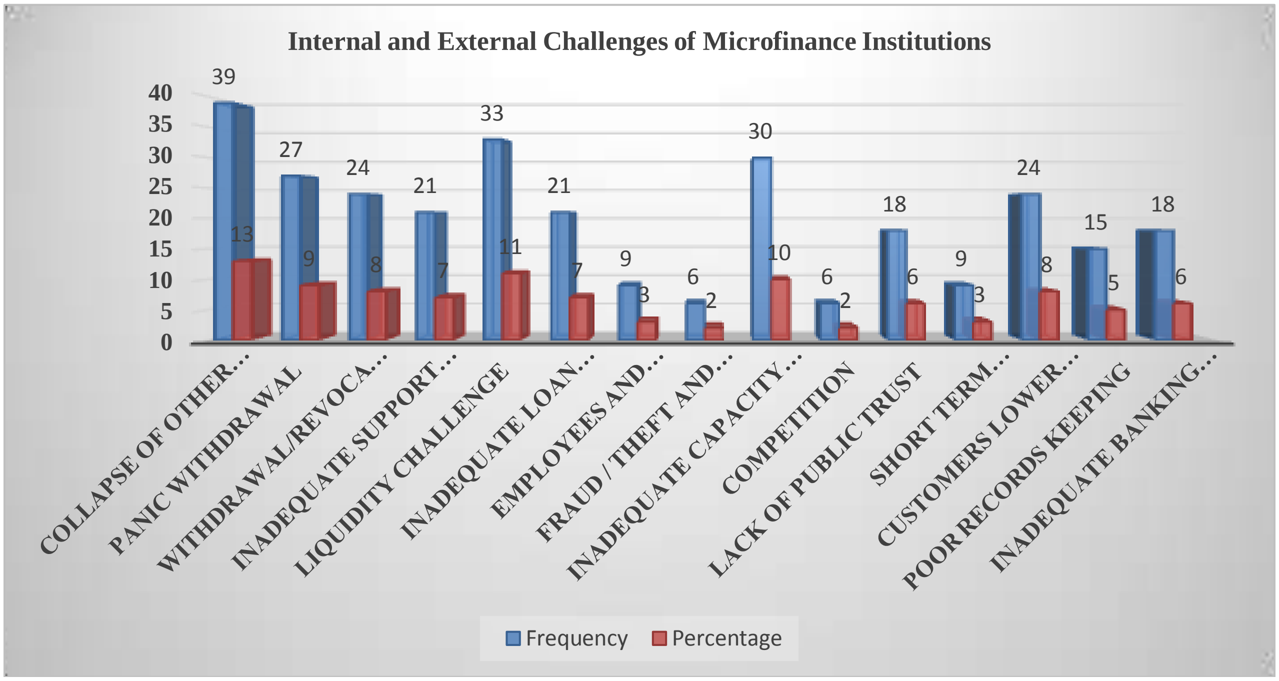


Table 4 Challenges Facing Microfinance Institution in Ghana

From the findings, the internal and external challenges microfinance institutions faced are listed in table 4 below.

No	Internal and External Challenges of Microfinance Institutions	Frequency	Percentage
1	Collapse of other MFIs	**39**	**13**
2	Panic Withdrawal	**27**	**9**
3	Withdrawal/Revocation of Licenses	**24**	**8**
4	Inadequate Support from Government	**21**	**7**
5	Liquidity Challenge	**33**	**11**
6	Inadequate Loan Monitoring	**21**	**7**
7	Employees and Customers Inadequate Understanding of MFIs Concepts	**9**	**3**
8	Fraud / Theft and mismanagement	**6**	**2**
9	Inadequate Capacity Building	**30**	**10**
10	Competition	**6**	**2**
11	Lack of Public Trust	**18**	**6**
12	Short Term Credits/Loans	**9**	**3**
13	Customers lower educational level	**24**	**8**

14	Poor Records Keeping	**15**	**5**
15	Inadequate Banking Culture	**18**	**6**



Source: Primary Data, 2018. 2018.

Table 5 Challenges Facing Financial Regulations in Ghana

The internal and external challenges of financial regulations in Ghana are those in table five below as indicated by the respondents.

No	Challenges Facing Financial Regulations	Frequency	Percentage
1	Regulations Cost	**27**	**9**
2	Lack knowledge of regulations procedures	**12**	**4**
3	Poor Monitoring and Supervision	**36**	**12**
4	Financial Instability	**18**	**6**
5	The Institutions Dynamic Nature	**9**	**3**
6	Risks and Uncertainties	**6**	**2**
7	Transforming the Sector	**21**	**7**
8	Reforming the Regulatory Standards and Reporting	**12**	**4**
9	Lower Staff	**42**	**14**
10	Political Factors	**24**	**8**
11	Information Dissemination Problem	**27**	**9**
12	Some Staff not Qualify	**9**	**3**
13	Challenges in dealing with MFIs Staff	**30**	**10**
14	Difficulty in sustaining most Microfinance Institutions	**18**	**6**
15	Technological Challenge	**9**	**3**

Source**:** Primary Data, 2018.

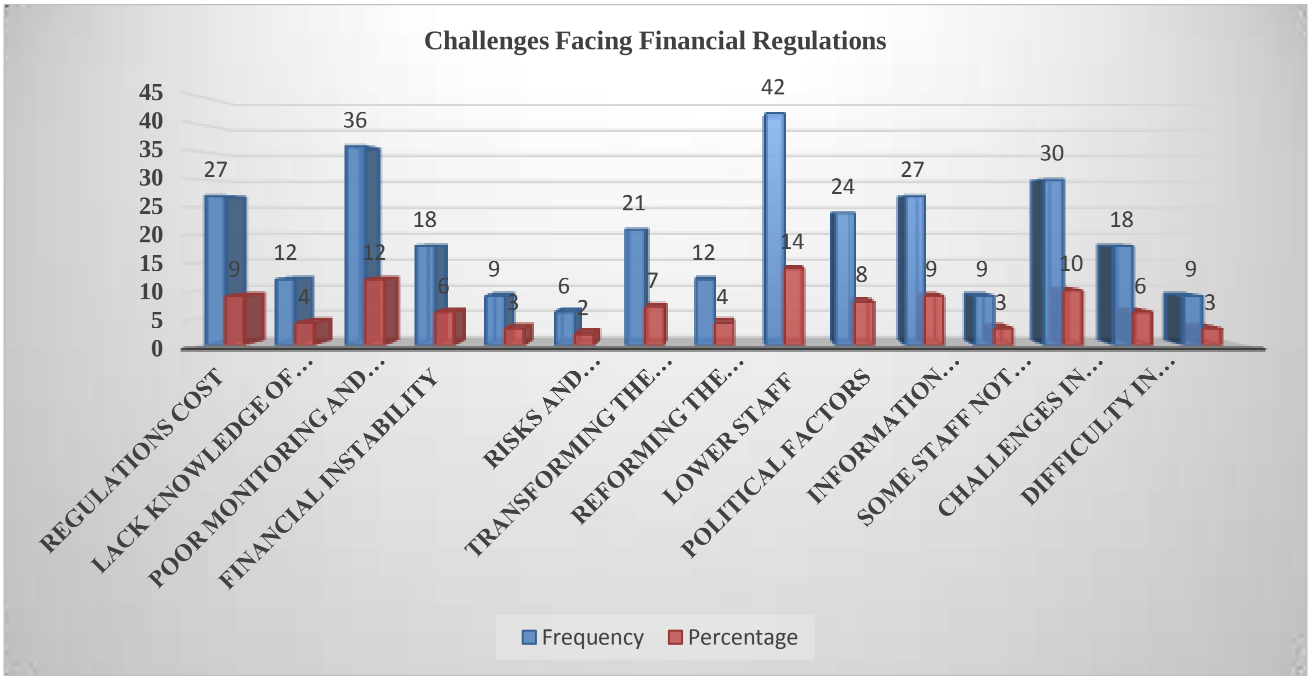


Table 6 Poverty Reduction and Employment Strategies in Ghana

The interviewees mentioned the following strategies and programs with the indicated statistics during the data collection in ghana as the Poverty Reduction and Employment Creation Strategies in the country.

No	Poverty Reduction and Employment Creation Strategies	Frequency	Percentage
1	NYEP-National Youth Employment Program	**33**	**11**
2	(YEA)-Youth-Employment-Authorities	**24**	**8**
3	(GPRS)-Ghana-Poverty-Reduction-Strategy	**18**	**6**
4	(ADB)-Agricultural Development-Banks	**18**	**6**
5	(PAP)-Poverty-Alleviation-Program	**9**	**3**
6	(GNPEP)-Ghana-National-Poverty-Eradication-Program	**21**	**7**
7	(WEP)-Women-Empowerment-Programs	**18**	**6**
8	(FCUBE)-Free-Compulsory-Universal-Basic-Education	**12**	**4**
9	(GPRSII)-Ghana-Poverty-Reduction-Strategy	**30**	**10**
10	(RCBs)-Rural-and-Community-Banks	**9**	**3**
11	(MFBS)-Microfinance-Banking-Schemes	**24**	**8**
12	(FSHS)-Free-Senior-High-School	**12**	**4**
13	(VNS)-Voluntary-National-Service	**21**	**7**
14	(NSS)-National-Service-Scheme	**12**	**4**
15	(NABCO)-Nation-Builders-Cooperation	**39**	**13**

Source**:** Primary Data, 2018.

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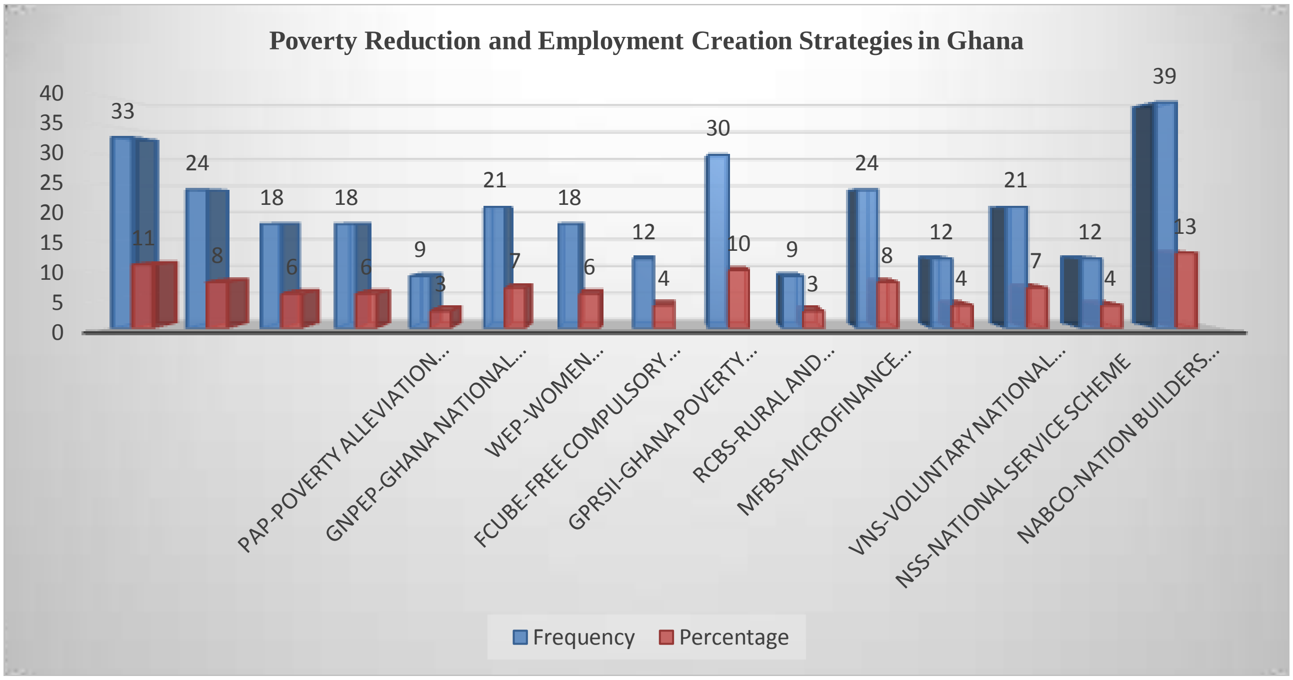

Table 7 Effects of Microfinance Program on Small and Medium Enterprises

Table 7 below illustrates the effects of microfinance institutions on small and medium enterprises financing in Ghana as mentioned by the respondents.

Objectives of MFIs Credit	**Frequency**	**Percentage**
Poverty Reduction	**48**	**16**
Employment Creation	**96**	**32**
Income Generating Activities	**45**	**15**
Women Empowerment	**18**	**6**
Supporting SMEs with Loans	**69**	**23**
Training on usage of Loan	**24**	**8**

Source**:** Primary Data, 2018

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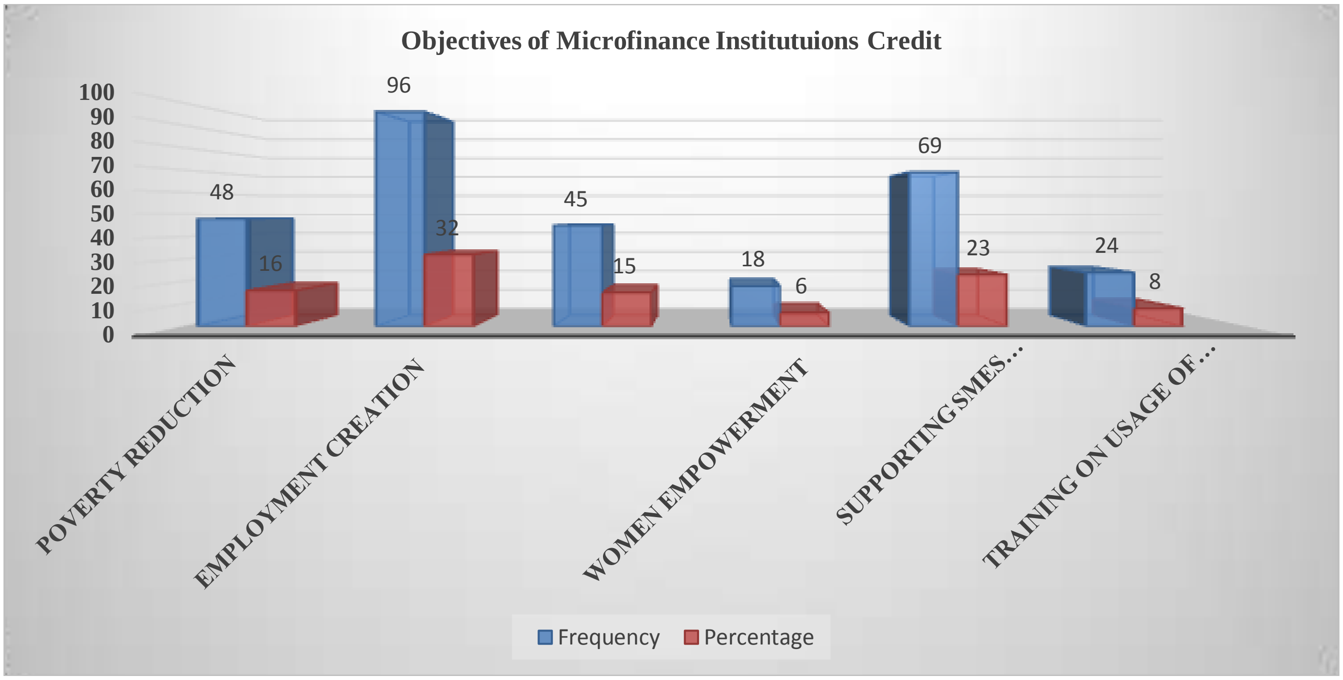

Table 8 the Services MFIs Rendered to SMEs

The microfinance institutions in Ghana rendered a lot of services to the small and medium enterprises. The below are some of the services that they are rendering to SMEs according to the respondents.

Services MFIs Rendered to SMEs	Frequency	Percentage
Issuing of Credits	**108**	**36**
Deposits / Savings Services	**84**	**28**
Investments Opportunities	**39**	**13**
Micro-Insurances Services	**24**	**8**
Money Transfer Services	**30**	**10**
Remittances	**15**	**5**

Source**:** Primary Data, 2018.

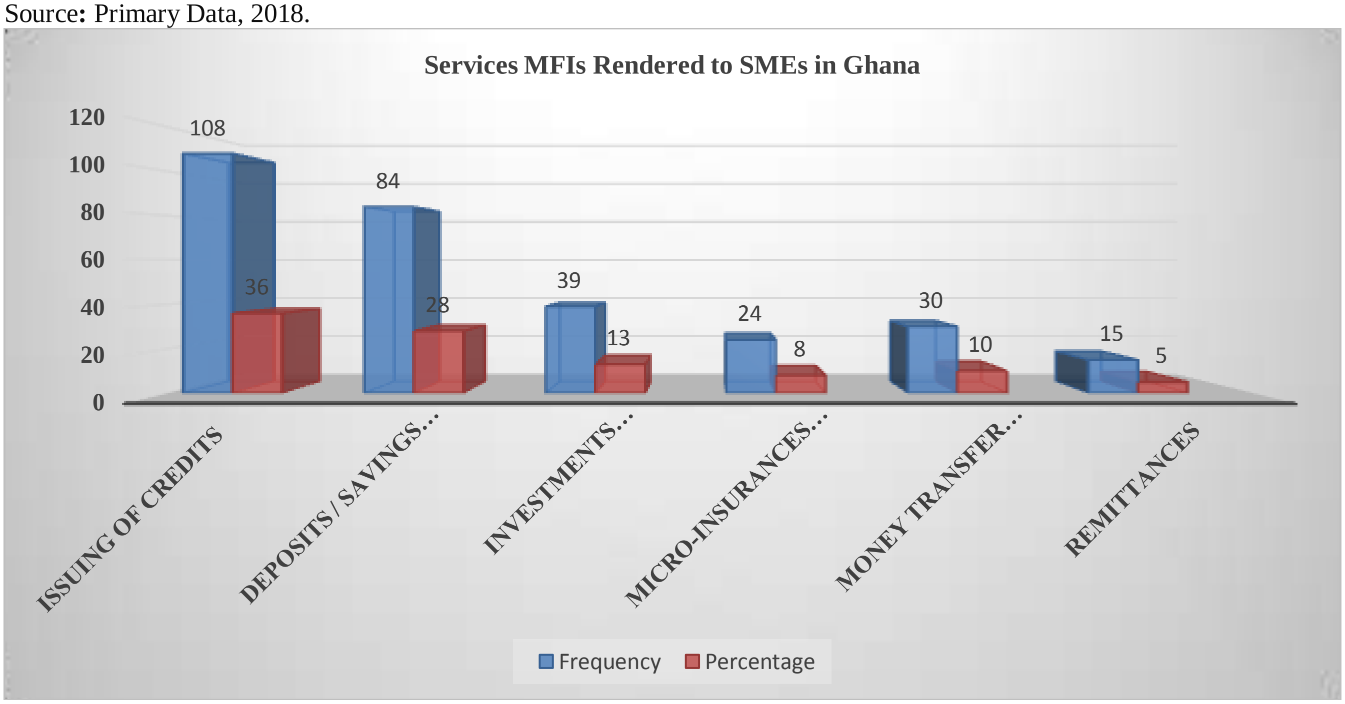

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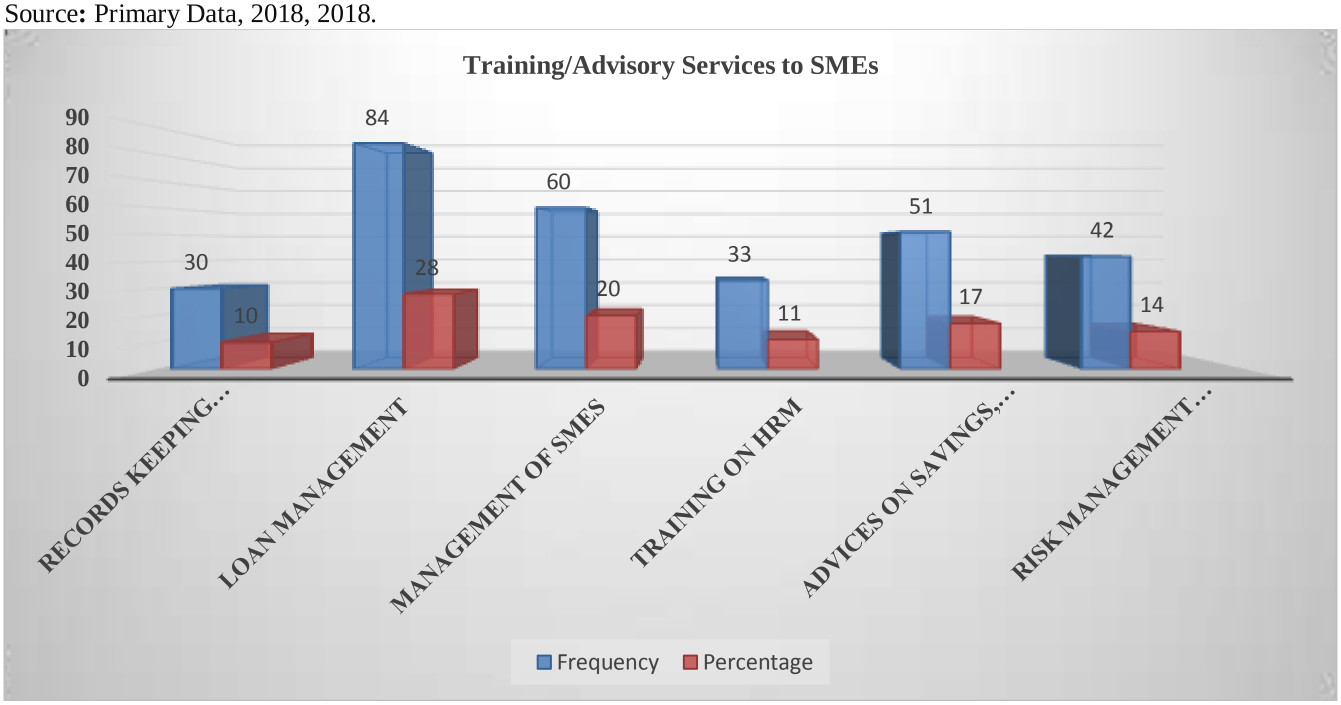
Table 9: Training and Advisory Services to SMEs in Ghana

Other Training & advisory services MFIs rendered to SMEs include the below in table 9

Training &Advisory Services to SMEs	**Frequency**	**Percentage**
Records keeping Training	**30**	**10**
Loan Management	**84**	**28**
Management of SMEs	**60**	**20**
Training on HRM	**33**	**11**
Advices on Savings, Deposits & Investments	**51**	**17**
Risk Management Training	**42**	**14**

Source**:** Primary Data, 2018, 2018.



5. Discussions from the Results

Regulations and policies contributed immensely to the development and sustainability of microfinance sub-sector through training & capacity building, checks, and balances, protecting customers and their depositors, creating financial soundness and financial inclusion.

The factors determining the sustainability of microfinance institutions in the country are significantly and positively driven by minimum capital requirement, credit default, low outreach, government policies, unqualified and inexperienced staff, high-profit motive, interest rates, and capital structure. Furthermore, from the findings, microfinance institutions not complying with regulatory guidelines, insufficient training, poor management, insufficient monitoring and supervision, lack of government support, the collapse of other microfinance institutions, and panic withdrawals are the reasons why most microfinance institutions collapsed.

The study reveals microfinance institutions' challenges to include: high capital requirement, poor management skills, lack of credit risk management policy, credit defaults from clients, technical knowhow, poor technology, high transactional and operational cost, poor credit monitoring and lack of support from the Government. While examining the challenges facing financial regulations as cost of regulations, inadequate knowledge on regulations procedures, inadequate staff to regulate all microfinance, political influence, lack of information dissemination, unqualified staff, technology, dynamic nature of the financial sector, uncertainties, reforming regulatory reporting and standards.

Microfinance institutions have highly impacted positively and significantly on customers in the form of income generation, employment creation, reducing poverty, increasing standard of living and households' well-being. Also, the emanated results from the questionnaires administered reveals the favorable relationship between microfinance institution, poverty reduction and employment creation since most of the beneficiaries attested to a high level of improvement in their businesses through the loans they receive and also improvement in their living standards and conditions since they became part of the microfinance program" in the country.

Finally, "microfinance institution is the sole financial institution that supports SMEs with credit/loans in the country". Again, it indicated that: "positive relationship existed between the microfinance institutions program and small & medium enterprises through financing and other services while a negative relationship existed between small & medium enterprises and other traditional banks in the country".

6. Summary and Conclusion

The analysis from the data collected in the field survey indicates that financial regulators from Bank of Ghana are not adequately and sufficiently monitoring and supervising all the microfinance institutions in the country hence making the sub-sector more unsustainable. The results emanating from the data collected reveal an important turnover, employment creation by microfinance sub-sector, supporting small and medium enterprises with credit, reducing poverty and increasing the standard, welfare, and condition of living of the low-income individuals in Ghana. Also, the loan application procedure for the microfinance client is easier because there is no collateral requirement nor tough eligibility requirement so some customers ended up defaulting on the credit given to them and this increases the unsustainability rate of the sub-sector. Aside from the challenges of microfinance institutions they still have some prospects to capitalize on and they are the major institutions supporting small & medium enterprises with credit in the country. Microfinance loans have a positive impact on small and medium enterprises' sales and production. Increment in the credit of the microfinance sub-sector to some extent also increase the production levels of the small and medium enterprises dealing with the sector. Though microfinance institutions charged higher interest rates compared to conventional banks, yet still, some customers of the institution confirmed that they are convenient with the repayment mode. Because conventional banks denied them banking services. Most of the institutions' operators lack formal education and these posed them with a serious challenge like poor management, lack of skills and poor records keeping.

7. Recommendations

Firstly, the Regulator from the Bank of Ghana should thoroughly investigate the capital structure or shareholding structure of the microfinance sub-sector. This will reveal the ownership positions of the shareholders and help save the clients from shareholder's interest in profit maximization at the expense of the customers. Secondly, the capital requirement from the Bank of Ghana financial regulators to the microfinance institution should be moderate for all the operating institutions to be able to afford to continue being in existence to help the poor and also help reduce unemployment in the country. Furthermore, financial regulators must come out with proper corporate governance practices and procedures for microfinance institutions. They must ensure that microfinance institutions comply with these corporate governance practices and procedures for effective management in the sub-sector or industry.

Microfinance institutions must-have information on borrowers, customers, and intermediaries to keep proper records on all clients to help reduce risk and must comply with the regulatory guidelines and requirements from the Bank of Ghana. Also, there should be quality accounting and auditing so as not to make errors because mistakes can affect the entire financial sectors and lead to collapse. Accounts managers should be vigilant and work together with finance officers and general managers for other clarifications and the institutions should have an intensive mechanism of monitoring loans issued to clients. Credit rating policies and processes must be effective. More so, the financial reporting standards to the regulators must be properly understood by the management for them not to create problems for the industry. Finally, the collapse of other microfinance institutions should be a warning to the surviving ones to work effectively and diligently to sustain the rest of the institutions. This will prevent panic withdrawals which is one of the main reasons for the collapse of the sub-sector.

Policymaking, policy implementation, policy monitoring & evaluation and policy maintenance related to microfinance should be autonomous and independent of political decision making and political leaders in the country. This would help build a strong policy that would be effectively implemented and for the proper functioning of the sub-sector in the country. Furthermore, new policies, measures, and procedures should be brought to help microfinance realized their objectives, mission, and vision. For example, there should be a Bank stress test to all the employees for this will help reduce systematic risk in the sector. Capacity development should be developed: For instance, human capacity building, infrastructure, funding, and resource capacity development to help the microfinance sub-sector to improve their efficiency and effectiveness and to encourage the institution to work with the vulnerable and disadvantaged people and their households. Policymakers together with regulators should organize training on the following areas to the management of microfinance institutions: Training on Human Resource Management, training on accounts and financial management, training on operations management, training on management, training on risk management, training on credits management, and training on customer service to reduce the collapse rate and help to sustain the microfinance

The Government should ensure macroeconomic stability and fiscal stability in the country. This can be through moderating interest rates, setting up appropriate exchange rate regimes, low taxation and the limited role of the government in process of financial intermediation within Ghana. The microfinance Apex bodies should be involved in the regulations, monitoring, and supervisions of the microfinance sub-sector in the country and too many powers should not be given to regulators, supervisors, and policymakers. Giving them much power can create risk and also retards the institution's financial sustainability. There should be the free flow of information from the government to regulators, policymakers, microfinance management and all the key stakeholders of the institutions. Credible information is essential for proper risk management and effective intermediations in the sub-sector.

We recommend that the customers (loan beneficiaries) should go strictly by the advice that the management of the microfinance institutions gives to them to promote the growth of their businesses, make a profit and be able to settle their credits at the required time. Customers should attend all training organized for them by the microfinance institutions management. The credit given to the customers by the microfinance should not be used to settle other Bank debt and cause default problems with the institutions. Loans given should be used for the right purposes.

Conflict of Interest

The authors declared no conflict of interest.

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