

Challenges Facing Microfinance Institutions and Financial Regulations in Ghana

Dr. Ramatu Ussif¹, Associate. Prof. Dr. Murat Ertuğrul², Prof. Dr. Metin Coşkun³, Associate. Prof. Dr. Ismail Onur Baycan⁴

¹Anadolu University, Graduate School of Social Sciences, Department of Business Administration, Eskişehir, Turkey

²Anadolu University, Faculty of Economics and Administrative Sciences, Department of Business Administration, Eskişehir, Turkey

³Anadolu University, Faculty of Economics and Administrative Sciences, Department of Business Administration, Eskişehir, Turkey

⁴Anadolu University, Faculty of Economics and Administrative Sciences, Department of Economics, Eskişehir, Turkey

Email: ramatussif@gmail.com / ramatussif@anadolu.edu.tr¹, mertugrul@anadolu.edu.tr², metincoskun@anadolu.edu.tr³, iobaycan@anadolu.edu.tr⁴

Abstract: This article analyzes the challenges facing microfinance institutions in their operations and financial regulations in about microfinance institutions in Ghana. The regulators, policymakers, and managers of the institutions were conveniently and purposively selected and interviewed with an interview guide, and the data was analyzed qualitatively. The article has outlined some challenges facing microfinance as microfinance institutions not complying with regulatory principles, poor management skills, and credit defaults from customers, high operational cost, poor credit monitoring, and lack of Government support. Some challenges facing regulations are examined such as cost of regulations, inadequate knowledge, inadequate staff, political influence, poor information dissemination, and uncertainties. However, despite the challenges, microfinance chalked the following prospects: unserved market, entrepreneurs' interest, increasing government interest, and economic growth. We recommend that there should be proper monitoring and risk management, autonomous regulations, government support, and adequate training/education of employees/staff to face the challenges and make microfinance institutions and financial regulations more effective.

Keywords— Microfinance Institutions, Financial Regulations, Monitoring, and Supervision, Ghana

1. INTRODUCTION

The entire financial system has a challenge and financial institutions in Ghana are not an exception. The purpose of the article is to assess challenges facing microfinance institutions and financial regulations in the country. This article investigates the challenges financial regulators faced in regulating, monitoring, and supervising the microfinance institutions in Ghana and the constraints/challenges that microfinance institutions faced from financial regulations, Government policies, customers, and within the microfinance setup or in their operations.

Microfinance institutions and financial regulations in Ghana like any other country's financial markets are not without challenges. Some of the challenges microfinance institutions faced include Macroeconomic variables, low management capacity, inadequate support from the Ghana Government, lack of microfinance institutions concepts understanding by some staffs, and customers, poor regulations, credit default, financial sustainability of the institution not been given much attention, low donor funding, lower outreach, and poor monitoring and evaluation systems.

The Financial regulations in the country also are faced with challenges such as cost of regulations, inadequate knowledge on regulations procedures, inadequate staff to regulate all microfinance, political influence, poor information dissemination, difficulty dealing with microfinance institutions, Problems on how to sustain most microfinance institutions, triggers, and changes, lack of coordination the supervision, financial instability, dynamic nature of the financial sector, uncertainties, transforming the effectiveness and sustainability of the sector and reforming regulatory

reporting and standards. Aside from the challenges, there are numerous advantages to the operations of the microfinance sector. According to Ussif and Ertugrul (2020) regulations & policies have both positive and negative impacts on microfinance Institutions. They contributed massively to the sector's growth and development via training and building staff capacity, protecting customers & depositors, ensuring financial stability and soundness, and financial inclusion.

The role of a Microfinance Institution in the Ghanaian economy also cannot be overemphasized. Microfinance has a direct and positive effect on the financing of Small and Medium Enterprises. They are the major financial institution that provides SMEs with loans in Ghana and other training facilities (Ussif and Ertugrul, 2020).

The research objective of this article is to discuss the internal challenges of a microfinance institution in Ghana, access the external challenges of microfinance institutions in Ghana, investigate the internal and external challenges of financial regulations in Ghana., to explore how to overcome the challenges the institutions faced, and to examine the prospects/opportunities of microfinance institutions in Ghana. Both the challenges of regulations and microfinance institutions need to be addressed by the institutions with the support of the government and other key stakeholders of the institutions to be able to tend all the challenges into opportunities for the sectors to be in a long term operation and serve the purpose of their establishment in the country. Microfinance institutions play a key role in reducing poverty, creating employment, and income-generating-activities. In the study of Ussif and Ertugrul (2020) reveal that microfinance has impacted significantly and positively

on customers through reducing poverty, employment creation, generations of income activities, and the living standards of households and their well-being. Due to the above-indicated role of Microfinance institutions and financial regulations in a country, the institutions must be protected and the necessary measures towards sustaining them.

1. LITERATURE REVIEW

2.1 Theoretical Review of Literature

Microfinance is simply understood to be the financial service provided to the active poor, responding to their demands and needs for these types of services. It emerged as an efficient mechanism of providing financial services to poor people who usually do not fit in the traditional/standard banking system due to their savings and loan demand was small, and they also lacked loan collateral security (Zeller & Meyer, 2002). Microfinance according to Ledgerwood, (1999) is an alternative economic development tool aimed at individuals in the low-income sector, through affordable and flexible financial services with the goal of poverty reduction.

Financial regulation is a type of supervision, monitoring, or regulation which leads financial institutions to some kind of laws, rules, requirements, guidelines, and restrictions that aim to maintain the soundness, stability, and integrity of the financial system at large.

2. METHODOLOGY

The methodology of this article is solely qualitative. Both primary & secondary data was used. With the primary source, regulators from the Bank of Ghana, and Policymakers from the Ministry of Finance were interviewed using an interview guide. Other data were gathered from management and employees of the microfinance institutions, Ghana microfinance institutions network staff, the staff of the Ghana Microfinance Company, and MASLOC staff while the secondary source was through journals, books, the institutions home page, and websites. The questions were asked to solicit the respondents' views on the challenges that the microfinance institutions and financial regulators faced, how to overcome those challenges, what they think are the solutions to the internal and external challenges of the institutions and the prospects of microfinance institutions in the country. Is there anything they think the government and the management of the various institutions can do to help minimize the challenges for the institutions to function as expected? Taking selected microfinance institutions in the country into consideration, using a total of thirty-two (32) sampled respondents consisting of 12 management of microfinance institutions, 6 other employees, 4 Regulators, and 4 Policy formulators. 6 other members were interviewed from the Ghana Association of Microfinance Institutions Network, Ghana microfinance companies, and Microfinance and small loans center. Also, the respondents' responses and

2.2 Empirical Review of Literature

Adjei (2010) in their study concluded that the challenges that microfinance industries are facing in not only Ghana but other developing countries too include: the problem of capacity building. Lack of adequate infrastructure, poor and inefficient delivery of credit & credit management, and ineffective gathering of information & information dissemination, and poor monitoring, regulating, & supervising. Similarly, Asiama & Osei (2007) argued that "aside from a year of public offering, direction & provision of small loans/microcredit program, players' new entry, the issuing of credits is insufficient". They list some challenges of the institutions which directly or indirectly affect the subsector's ability and capability to perform efficiently as undercapitalization, poor management, ineffective regulatory framework & supervisory. However, Andah (2008) in their study of MFIs challenges in Ghana concluded that, management funds diversion, lack of capital, constant changes of policies by government, operational & transaction costs high, high default rates, lower capacity building, low or lack of technical skill within the sector as problems and challenges to the growth & success microfinance sector. Andah argued that some of these constraints are the challenging factors that contributed to the unsustainability of past schemes & programs and currently, still affecting microfinance scheme in this country.

submissions during the focus group discussions with some selected microfinance institutions management in Accra, Tamale, and Techiman were taken into consideration. The needed data was gathered using face-to-face interviews and discussions with interview guides & focus group discussion guide. Some of the responses were audiotaped whilst others were written in a booklet. The participants' responses were transcribed, coded, narrated, interpreted, and analyzed qualitatively using Thematic Analysis.

3. FINDINGS

The tables below, table 1 to 5 gives a summary of all the findings of the challenges microfinance institutions' and financial regulators faced, how to overcome the challenges, and finally, the prospects of microfinance institutions.

Table1: Internal Challenges Facing Microfinance Institution in Ghana.

According to the respondents from the findings, the internal challenges microfinance institutions faced in Ghana include the listed in table 1 below.

No	Internal Challenges Microfinance Institutions Faced in Ghana
1	Credit Default
2	Poor / Improper Records Keeping
3	Minimum Capital Requirement
4	High Operational Cost
5	Inadequate Capacity Building

6	Illiterate Customers
7	High-Interest Rate from MFIs
8	Unfaithful Staff
9	High Transactional Cost
10	Liquidity Challenge
11	Short Term Loans
12	Poor Loan Monitoring
13	Fraud/ Theft
14	Employees and Customers Inadequate Understanding of MFIs Concepts
15	Mismanagement by Managers

Source: Primary Data, 2018

Table 2: External Challenges Facing Microfinance Institution in Ghana.

During the interview, the interviewees made mentioned the following factors in the ensuing table as the external challenges the microfinance institution faced in the country.

No	External Challenges Facing Microfinance Institutions in Ghana
1	Lack of Infrastructural
2	Panic withdrawal by Customers
3	Competition
4	Financial Regulations
5	External Monitoring and Supervision
6	Licensed Withdrawal/Cancellation
7	Government Policies
8	Lack of Government Support
9	Inadequate Banking Culture Among the Rural Customers
10	Lack of Information on Regulation Procedure
11	Corruption
12	Depreciation of the Cedi / Currency
13	The Problem of Unstained Microfinance Institutions
14	Lack of Decentralization
15	No Public Trust for Microfinance Institutions

Source: Primary Data, 2018.

Table 3: Challenges of Financial Regulations (Internal and External)

From the respondents' responses, financial Regulation in the country faced the following internal and external challenges listed in table 3.

No	Challenges of Financial Regulations in Ghana
1	Cost of Regulations
2	Inadequate knowledge of regulations procedures
3	Inadequate Staff to regulate all microfinance
4	Political influence
5	Poor Information Dissemination
6	Unqualified Staff
7	Difficult dealing with Microfinance Institutions.
8	Problems on how to sustain most Microfinance Institutions
9	Technology/Triggers and changes
10	Lack of Coordination the Supervision

11	Financial Instability
12	Dynamic nature of the financial sector MFI
13	Uncertainties
14	Transforming the Effectiveness and Sustainability of the Sector
15	Reforming regulatory reporting and standards

Source: Primary Data, 2018.

Table 4: Overcoming Challenges of the Microfinance and Regulations in Ghana.

From the interviewees' responses, the following factors would help to overcome the challenges facing financial Regulations and microfinance institutions in the country.

No	Overcoming Microfinance and Regulations Challenges in Ghana
1	Reduce the Cost of Regulations
2	Sufficient knowledge on regulations procedures
3	Adequate Staff to regulate microfinance institution
4	The Institutions should be free of Politics
5	Proper Information Dissemination
6	Qualified Staffs for both Institutions (MFIs & FR)
7	Effective and efficient government policies
8	There should be a vibrant regulatory framework
9	Dealing with Triggers and Changes
10	Effective Coordination the Supervision of the institutions
11	Financial Stability
12	Proper loan monitoring & Management
13	Government and Donor Support
14	Control of Interest Rate
15	Dealing with Corruption, Fraud, and Mismanagement in the Institutions.

Source: Primary Data, 2018.

Table 5: Microfinance Institutions Prospects in Ghana

From the findings, the respondents said, more prospects or opportunities existed for the microfinance sub-sector in Ghana. Among the prospects mentioned include:

No	Prospects of Microfinance Institutions in Ghana
1	Unserved / Underserved market for MFIs
2	Development of the sector due to regulation
3	More poor and low-income people willing to bank
4	Entrepreneur growing interest and awareness
5	Increasing Government interest
6	Economic Growth

Source: Primary Data, 2018.

4. DISCUSSIONS

5.1 Response to Research Question 1

What are the internal challenges of Microfinance Institutions in Ghana?

The Internal Challenges are constraints, difficulties or problems, and issues that the microfinance institutions faced in their operations internally and that which also

affects their internal dealings. This could be from the financial regulators who regulate, supervise and monitor the activities of the institutions, the policy-making bodies who formulate and implement the policies of the institutions, the management who manage the affairs of the institutions, or the other employees they hired to help manage the affairs of the institution, and the customers the institutions deal with. The products and services the institution offered to the clients, the credit they issue to the customers, and other things within the institution. From the findings, the below to be discussed are the internal challenges that the institution faced as mentioned and explained by the respondent.

According to Kwame, a 50-year male respondent from Aspect A microfinance institution in Brong Ahafo Region (Techiman), one of the internal challenges of microfinance institutions is credit default by the customers of the institution he narrates:

“Kwame said customers default on the credit the institution issued to their customers. Some of the beneficiaries refuse to pay back the loans while others pay but half of the required amount. Default in loan repayments leads an institution to a standstill. It brings about the collapse of the institutions especially when the default rate is high. The loan issued out and the interest that comes with it is what the management utilizes and gives to other customers as loans and the money is from the small depositors who save their monies for safety and come for it as in when they needed it. When this happens, the institutions cannot even pay their clients (depositors) and this again leads to the announcement of panic and collapse by some of the customers”.

FB from the Ministry of Finance mentioned Poor records keeping as another internal challenge that the microfinance institution is facing in Ghana.

“According to him, financial records need to be taken care of properly. The accounting and financial procedures must be followed and the information on each must be carefully entered and written in financial books for proper records keeping so that in case of system default there are backups to rely on. He said there should be a unique software for usage and keeping of information and data by the microfinance institutions for security reasons but most of the institutions are lacking this. This is a serious challenge faced by most of the institutions as he mentioned during the interview”.

During the field interview with the respondents, we observed that some staff of the sector when asked how they keep their records, mentioned manually, and others also said both manual and with computers. Few mentioned the use of a

microfinance software. In case the records of the institution are not kept properly, it can cause problems. The researcher also observed that most of the information of the customers was written in booklets and later entered into the computer.

AAA a confident and one of the sub-manager of the institution made mention of employees and customers' inadequate understanding of microfinance institutions concepts and mismanagement by some managers as a serious internal challenge in the sub-sector. He narrates:

“Some of the employees are only working for the institution but do not understand the real definition and concepts of the microfinance institution. The customers are also banking with the institutions but lack knowledge and understanding of the dealing of the institutions. Education of both the employees and the customers on what microfinance institution is and mission and objective of microfinance institution as against the products and services offered will help to sustain the institution”.

BZ a 37-year-old accounting and finance manager at Aspect A microfinance institution also mentioned that:

The majority of the managers mismanage the institutions. They do not handle the institution like their own property and asset but rather sees it as someone else property. Some even engage in dubious businesses that are not part of what the institutions are licensed and registered to do. Most management ended up doing whatever businesses come onto their way without weighing the pros and cons of the business. The only aim is to make a profit irrespective of the kind of business forgetting that, they are dealing with customer's monies”.

These are the main reason why regulators and policymakers are important for every functioning financial institution to protect customers and their savings. We recommend that these activities of managers must also be monitored by both regulators, policymakers, and owners.

5.2 Response to Research Question 2

What are Microfinance Institutions External Challenges in Ghana?

The external challenges of microfinance institutions are the most serious challenges faced by institutions. These are the challenges that the institution is not having full control over. Most of these challenges are macro and need Government intervention. While some can be rectified by the management of the institution others are beyond their capability. The respondents during the interview mentioned some of the external challenges of the microfinance sub-sector to include the discussed factors below.

Alaska, a 33-year-old gentleman and a staff of "Expert Link Microfinance Limited" in Brong Ahafo region answered the external challenges facing MFIs as, lack of infrastructural, and panic withdrawal by the customers as a challenging factor. Alaska explained these factors as:

“The institution lacks the needed infrastructural development. Due to this, it is difficult for some of the organizations to extend their services to the most needed places. Lack of access to roads, social amenities, and the like are difficult factors and reasons why the institutions cannot open other branches in rural communities. The customer base needs to be extended to other parts to get more poor and low-income people banking but accessibility to reaching them is difficult”.

“Alaska also said, due to the continuous collapse of microfinance institutions in Ghana, most customers never want to continue to save with the institutions. Again, the default rate of some of the loan beneficiaries makes it challenging for microfinance institutions to pay all the customers their savings due to lack of enough funds at their disposal and so some customers' due to words of mouth advertisement about the poor performance and attitude of the Banks towards the customers, some also rash for their monies. These bring a lot of queues at the premises of the Banks as customers all are demanding their entire deposit, even those who invested the monies still needs their monies and cannot wait for maturity. Panic withdrawal is a serious case and the customers need education on how to stop this since it is a serious crisis to the microfinance institution and every financial institution. These were the ideas and views of Alaska during the interview with him on their banking premises”.

In a focus group discussion with the management of Afro-Arab Microfinance institutions in Accra, the respondents made mention of competition, regulatory requirements, monitoring and supervision by regulators, licensed withdrawal, government policies, and government not supporting the microfinance as some external challenges facing the sub-sector.

LBR a graduate, accountant, manager, and a male respondent during the focus group discussion mentioned competition as a challenge:

“He narrates that, there is serious competition among the various microfinance institutions in the country. Besides this, the traditional and conventional banks also compete heavily with the microfinance institution though most of their products and services vary. Recently most of the

traditional Banks have the products of microfinance and also operating it. The rate at which banks and microfinance institutions compete among themselves is making it a big challenge for the institutions because if you work ineffectively and not able to meet the demands of your customers and supply of the products as in when they are needed, you can easily be competed away by your competitors”.

We observe that competition to some extends puts the management and other employers on track to work diligently to serve their customers best.

Hassan a graduate, smart and very intelligent married man, and a manager in charge of loans delivering, monitoring & supervising at the above institution narrates that:

“The regulatory requirements by the regulators is a challenge to most microfinance institutions. Some of the institutions and regulators always fight over regulatory reporting or procedures and some management are afraid to hear that regulators are visiting them. All this is due to the way they work and deal with issues. The staff who work well have nothing to worry about the coming of regulators to monitor and supervise them. Most of the management also complain about the laws, rules, and demands of the regulators. They also complain about the reporting procedure being cumbersome and gargantuan beyond their wish. Some again wish the regulatory guidelines will be redrafted to match the current situations”.

From the discussion, one of the respondents called "Awee" complained about the monitoring and supervision by the regulators as a challenge to the institutions. He concluded that:

“Sometimes the regulators come to the institution unannounced, in a form of surprise visit and demand things that are not ready yet. That, at times they announce their coming but with very short notice. Regulation and Supervision should be friendly and lovely if both the management and the regulators are doing the right things at the right time said an employee. Awee narrated”.

Malik who holds MSc in Micro-financing, 29 years old gentleman of "Aspect A microfinance institution" also narrates that:

“The majority of the public do not have trust for MFIs in the country. This is due to the type of thinking & perceptions they have about microfinance institutions. Most people think that the staffs are there to run with their monies. Some also think that, no matter what the institutions will

collapse. Due to some of these perceptions of the public, the majority do not even want to respect the workers or employees of the microfinance institution”.

5.3 Response to Research Question 3

What are the internal and external challenges facing financial regulations in Ghana?

The financial regulators from Bank of Ghana also faced similar challenges in regulating, monitoring, supervising, and dealing with the microfinance institutions management. These challenges are both internal and external. Among the challenges facing financial regulators from the findings during the interviews and focus group discussions are discussed below:

Bossu, a manager at "Dunia Microfinance Institution" in Accra Nima mentioned the cost of regulation and supervision and inadequate knowledge of regulations procedures as the challenges of financial regulations in Ghana. Bossu narrates that:

“Regulations are expensive. It needs a lot of money to be able to cover all microfinance sub-sector. The cost involved in the monitoring and supervision of the institution is too high for one organization to afford. The government of Ghana needs support from donors' agencies and other sources to invest in microfinance institution regulations since the regulations are one of the ways to reduce the collapse of the sub-sector”.

“Again He mentioned that most of the staff do not have enough knowledge and skills required to work on the institutions. Due to this some of the staff need training and to gather experience to work effectively. Not having enough knowledge of regulations can pose a threat to microfinance institutions and the Bank of Ghana”.

Tetteh, a 45-year-old man from the bank of Ghana, a confident and responsible looking man narrates that:

“The number of employees to carry out the role of the regulation in the BOG is inadequate. The ratio of MFIs as against the regulatory bodies in the country is not encouraging. Due to the above, most MFIs in Ghana are not been regulated. Especially those institutions in rural areas. Some of the MFIs are operating without recognized licensed and the regulators need to get them out of business to reduce the collapse rate in the country”.

We advise that more regulators should be recruited/employed into the financial regulation sector to

help address this issue of microfinance institutions' unsustainability and collapse rate in the country.

Madam Gee, a staff and 40-year-old female regulator from Bank of Ghana mentioned political influence as another challenge facing the financial regulations in the country. She narrates that:

“The political atmosphere of the country has a greater influence on the regulators. Political parties play politics with the institutions and this has an impact on the success and achievements of the institution. A change of government leads to a change of management and other staff of the institution and this is affecting the operations and performance of the organization. The researcher advises that regulations should be independent of Politics. The more autonomous the institutions are, the better it is for the workers and the beneficiaries”.

In a focus group discussion with the staff and management of "Aspect A microfinance institutions", the following challenges were mentioned. Poor Information Dissemination, unqualified staff, difficulty dealing with some microfinance institutions, and Problems on how to sustain most microfinance institutions.

Fatash mentioned in the discussion that:

“Within the Bank of Ghana microfinance regulatory section, information flow is very weak. The more information is allowed to flow freely, the best it is for the institution. There should be information flow from the regulators themselves and to the other key stakeholders of the microfinance institutions like the policymakers, donor agencies, the government, clients, and so on. This would help make their works easier and the institutions can be in existence for a long period. Good information dissemination help reduce the risk in an organization”.

Madam Sena married women and staff at the microfinance institution concluded that:

“Aside from the limited number of the employees of the Bank of Ghana financial regulations sections, some of the staff are not qualified for the jobs. Some of the employees were there on a political basis and others were there based on family relations or at a fee. Because of this, it is difficult to handle and correct most of them”

We recommend that the recruitment body should be independent of politics, family, and friends since this is a matter of financial institutions and customer monies. A sound financial institution helps in the development of a country's economy and customers at large.

5.4 Response to Research Question 4

How to overcome the challenges of MFIs and financial regulations?

According to the respondents, some of the ways to overcome the challenges are:

- Reducing the cost of financial regulations.
- Having sufficient knowledge of regulatory procedures.
- Adequate Staff to regulate the microfinance institution.
- The microfinance institutions and regulations should be free of Politics.
- There should be Proper Information Dissemination in the sectors.
- There should be qualified Staffs for both Institutions (MFIs & FR)
- Effective and efficient government policies should be implemented
- There should be a vibrant regulatory framework.
- Dealing with Triggers and technological Changes.
- Effective Coordination the Supervision among the institutions.
- There should be financial stability in the country.
- Proper loan monitoring and evaluation.
- There should be Government and donor support to the sub-sector
- Control of interest rate.
- Dealing with corruption, fraud, and mismanagement in the institutions.

5.5 Response to Research Question 5

What are the Prospects of MFIs in Ghana?

This final section of the article is a question about the prospects or opportunities of microfinance institutions in Ghana. The institutions have many challenges both internal and external, there are also several opportunities to capitalize on said the respondents. Among the opportunities mentioned by the respondents are: Unserved/underserved market for microfinance institutions, development of the sector due to regulation, more poor and low-income people willing to bank, entrepreneurs growing interested and awareness, increasing Government interest and economic growth in the country.

Alhaji, a man and staff of “Baobab Microfinance Company Limited” in Tamale mentioned the Unserved/underserved market for microfinance institutions as a prospect in Ghana. Alhaji narrates that:

“The Microfinance institution has a market that still is not captured in the country. The un-banking populations in the country still outweigh the banking population in the country and most of this

population is found in the rural communities where the target of the microfinance institutions is. This opportunity can be grabbed by the sector to increase customer base and outreach in the Banking sector and this will increase growth rate hence more profit will be acquired in the long run with a very high sustainability rate”.

LBR of Afro – “Arab Microfinance Limited” mentioned the development of the sector due to regulation as an opportunity for Microfinance. LBR narrates that:

“Before there were no regulations for the microfinance subsector and the majority of the public are scared to bank with the institutions due to insecurity and other related factors. Recently, the Bank of Ghana regulates the institutions, so the savings and investments of the customers are protected. Because of the above reason, more customers are now saving with the institution and this brings development in the sector. He further stated that, with the support of the regulators and the government through effective monitoring and supervision and with vibrant policies for the sector, customers and the public would have confidence in the sector hence more clients to boost the economy”.

Siddique, another confident man, and staff of “Dunia Microfinance Limited” in Accra said, more low-income individuals and poor people willing to bank are prospects of the sector in Ghana. Siddique concludes that:

“The unserved populations who are the low-income people in the rural communities, the majority are willing to bank but there are no banking services available to them. The traditional banks also required collateral and guarantors before opening an account to them and issuing them with credits and all these put them off from those institutions. The microfinance institutions still have bigger prospects and brighter opportunity to capitalize on these potential customers willing to Bank”.

Jimmy from “Aspect A Microfinance Institution” made mentioned of Entrepreneurs Growing Interest and Awareness as prospects of microfinance institutions. Jimmy narrates that:

“More and more entrepreneurs are having an interest in the microfinance sub-sector. This would be a good opportunity to capitalize on. Now more entrepreneurs are willing to come to the sector and work together while others want to establish their microfinance institutions. This is an opportunity because more entrepreneurs mean more employment and economic development”.

Farhat a staff of “Global Trust Microfinance Services Limited” said there is increasing government interest as a prospect to a microfinance institution. According to Farhat:

“The Government of the country has an increasing interest in the microfinance subsector. This is because the institutions help create employment for the youth and reduce the unemployment rate in the country. Again, the poor were the target, and this help to reduce their poverty levels due to the credit they get from the institutions and the encouragement to save part of their earnings. Through this, there is economic development so this made the government have an increasing interest in the sector”.

Ismail a loan officer of “Common Capital Microfinance Limited” mentioned economic growth as an opportunity for a microfinance institution. Ismail explained that:

“Another prospect of the microfinance sub-sector is economic growth. When the unbanked population is reached and served properly, the poverty rate will be reduced and more people can now bank, get loans and establish themselves and these will bring about economic development in the country. A country with Economic growth is the one that has the majority of the youth working, poor levels reduced, higher income for the citizens and the vulnerable involved in the financial services of the country”.

6. SUMMARY CONCLUSION AND RECOMMENDATIONS

6.1 Summary

Regulating the cost of microfinance institutions is far more than the cost of regulating conventional and traditional Banks.

Secondly, interest rates charged on microfinance institutions is higher due to the high default rates.

Thirdly, customers' credit default rate is higher in microfinance institution than in the traditional Banks. This may be due to a lack of collateral from the microfinance before the issuance of the loan to the clients.

Again, the management and other staffs of microfinance institutions need intensive training and capacity building. This will boost the development of the sector positively.

Also, the Government is trying hard and giving due attention to the microfinance sector due to its high collapse rate. This is one of the reasons behind liquidity reserve and the minimum capital requirement increment by the regulators and the Government.

Finally, the procedures, processes, and reporting standards of the financial regulations to the microfinance institutions need improvement and update.

6.2 Conclusion

Conclusively, therefore, the key internal challenges of microfinance institutions in Ghana are: "Credit defaults by the customers, poor /or improper records keeping, minimum capital requirement, high operational cost and transactional cost, inadequate capacity building, illiterate customers, high-interest rate from microfinance institutions, unfaithful staff, high transactional cost, liquidity challenge, short term loans, poor loan monitoring by management, fraud/ theft, and customers inadequate understanding of the microfinance institutions concepts and mismanagement by managers".

However, the external challenges of microfinance institutions include: "lack of infrastructural, panic withdrawal by customers, competition, regulations and government policies, monitoring and supervisions, licensed withdrawal, lack of government support, inadequate banking culture among the rural customers, lack of information, corruption, depreciation of the cedi/currency, problem of unstained microfinance institutions, lack of decentralization, no public trust for microfinance institutions".

On the other hand, the internal and external challenges of financial regulations in the country include the following: "Cost of regulations, inadequate knowledge on regulations procedures, inadequate staff to regulate all microfinance, political influence, lack of information flow, unqualified staff, difficult dealing with microfinance institutions, problems on how to sustain most microfinance institutions, triggers, and changes, coordination the supervisors, financial stability, dynamic nature of the financial sector microfinance institutions, uncertainties, transforming the effectiveness and sustainability of the sector and reforming regulatory reporting and standards".

Despite the above challenges faced by the institutions, the microfinance sub-sector still has the following prospects or opportunities to capitalize in the country: "Unserved/underserved market for microfinance institutions, development of the sector due to regulations, more poor and low-income people willing to the bank, entrepreneur growing interested and awareness, increasing government interest and economic growth".

6.3 Recommendations

Recommendations to Regulators and policymakers

The regulators from Bank of Ghana, the ministry of Finance policy-making body should continue their hard work on training & capacity building for the microfinance staffs and it should be extended to some stakeholders like the CEOs, Directors, Board of Directors, Owners and other

interested parties. Also, there should be training on the below areas to the management and employees of the institutions.

Training on Human Resource:

Policymakers and regulators should empower the workforce of microfinance institutions with much holistic performance management and leadership development. A current and modernize human resource processes. This will help gain a competitive advantage in the institution to help reduce the challenges and maintain sustainability.

Training in Accounting and Finance:

Training the management on accounts and finances will help them to understand financial statements, accounting and financial concepts, financial decision making, sharpen their bookkeeping skills, help to evaluate their business performances, update their knowledge on the current global financial reporting to be able to send their monthly reports to the regulators on time for a checkup and necessary correction.

Training on Operations:

This will help the management to produce products and services in a more efficient manner, quality products, effective planning, and control of their services entities and a broad range of key issues in operations management. Knowledge in these areas will help the management to reduce the risk within the organization.

Training in Management:

The management, when given this kind of training, will help them improve upon their skills as leaders of the sub-sector. This will also improve their team workability in areas such as communication, empathy, relationships with other staff and customers and they are dealing with all other stakeholders.

Training on Risk Management:

Training the management of microfinance institutions on risk management will help them to identify the hazards and risks of the organization on time to able to apply the necessary and needed measures that will reduce or eliminate the risk and hazards. Again it will help the management team to identify quickly the risk, classify it, and manage it successfully. Risk in a company can endanger the objectives of the institution. Able to manage risk will help to increase the profitability of the sub-sector.

Training on Credit Management:

Training on credit management will also help the credit managers in the microfinance sub-sector oversee the credit lending process for the loan beneficiaries. It will help them to design effective rating criteria, define the credit

ceiling for the organization's customers and the collection procedures. Again, this training will help to reduce or mitigate losses and default rates.

Training on Customer Service:

Training on customer service will help the management of the microfinance institutions to also train the other employees on the knowledge, skills, and competencies required to deal with their customers to be able to satisfy the customers by improving their services. We believe this will help improve standards, increase customer base, potential customers, and investors in the microfinance sub-sector in the country.

The respondents and the researcher believed that, if the above training were given to the management of the microfinance institutions, it will help mitigate the challenges, the collapse rate and make the institutions more sustainable for the betterment of the country.

Recommendations to the Government and Microfinance Institutions

Both the researchers and the respondents recommend that the government and microfinance institutions should follow the below characteristics, to make the microfinance industry very vibrant and sustainable:

- Sound, safety, and vibrant system for participants like depositors, customers, borrowers.
- Effective and fair competition for the betterment of the institution and customers
- The high rate of risk in the microfinance institutions which leads to collapse and other factors should be looked at by the institutions. We advise that a good strategy should be adopted to minimize it if not avoid it completely.
- Creating quality products/services, and effective customer care and management
- High outreach level, to increase growth and sales, through increasing customers numbers
- Increase in the number of innovative products and services
- The industry should be independent of public subsidies
- Fair treatment and protection of borrowers.
- The objective of microfinance institutions must be made clear to all stakeholders, interested parties, and the participants in the sub-sector.

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