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THE ANALYSIS OF THE EVOLUTION OF MICROFINANCE INSTITUTIONS IN GHANA

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Declaration of Integrity

I confirm that work in this thesis titled “The Analysis of the Evolution of Microfinance Institutions in Ghana” is original and has been carried out by me as part of my programme of study. I also confirm that all secondary materials has been properly acknowledged by me and referenced in this work with the help of my supervisor.

Signed:

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Place and Date: Prague, 2016

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ABSTRACT

Microfinance is termed as the provision of financial service to low income clients such as microloans through a variety of products and a system of intermediary functions. Microfinance has been over the past years gained grounds as a potential tool for poverty reduction and a driver of accelerated growth and development of many developing countries. Ghana as a developing country has witness the rapid growth of microfinance industry in recent years. The study therefore sought to find out the factors that influence the growth of microfinance institutions in Ghana. Despite the involvement of the low income earners and the very poor in MFIs, these organizations continue to thrive despite the challenges that they surround them. It further investigated factors that could be viewed as drivers and those that are considered as obstacles to the growth of the microfinance industry in Ghana.

The study involved the use of both quantitative and qualitative approach with descriptive design. The study targeted 70 microfinance institutions operating in the Greater Accra region of Ghana. Questionnaire administration was the medium of obtaining data for the research which consisted of both structured and unstructured types of questions. Empirically, the study made use of the t- test to statistically measure the relationship between the outreach potential of MFIs as measured in terms of growth and the drivers and obstacles of growth of the microfinance industry in Ghana.

Results obtained from the study showed that, the introduction of innovative products, access to international financial sources, provision of quality customer care and cliental base were identified as possible drivers of growth of MFIs in Ghana. More so, High rate of default, poor management, high operational cost and inadequate capital were found as possible obstacles that hinders the growth of MFIs in Ghana. Contrary to this, there was no significant relationship between the factors identified as drivers of growth and the outreach potential of MFIs in Ghana. The study however found a significant relationship between default rate and the outreach potential of MFIs in Ghana. Poor management, high cost of operation and inadequate capital did not significantly affect the outreach potential of MFIs in Ghana. Based on the results obtained, the study recommends the in cooperation of the MFI industry into the financial system to enhance better regulation and monitoring of the sector.

Keywords: Evolution, Microfinance, Institutions, Growth, Ghana.

CONTENTS

LIST OF FIGURES AND TABLES

LIST OF FIGURES

LIST OF TABLES

LIST OF ABBREVIATION

AFI - Alliance of Financial Inclusion

ARB – Association of Rural Banks

ASSIP - Agricultural Services Investment Project.

BOG – Bank of Ghana

CBRDP - Community Based Rural Development Programme

CGAP - Consultative Group to Assist the Poor

FINSSP - Financial Sector Strategic Plan

FNGOs- Financial Non – Governmental Organizations

GHAMFIN -Ghana Microfinance Institutions Network

GPRS - Growth and Poverty Reduction Strategy

GSS - Ghana Statistical Service

MASLOC – Microfinance and Small Loans Centre

MFI – Microfinance Institution

MOFEP- Ministry of Finance and Economic Planning

MSME - Micro Small and Medium Social Enterprise

NBFI – Non –Bank Financial Institutions

NGO – Non- Governmental Organization

OECD – Organization for Economic Cooperation and Development

RCB – Rural and Community Banks

REP - Rural Enterprise Project

RFSP - Rural Financial Services Project

ROSCA - Rotating and Accumulating Savings and Credit Associations

S &L – Savings and Loans

SIF - Social Investment Fund

SPSS – Statistical Package for the Social Sciences

UN- United Nations

UNCDF – United Nations Capital Development Fund

UNDP -United Nations Development Programme

1.0 INTRODUCTION AND LITERATURE REVIEW

1.1 Introduction

Microfinance is termed as the delivery of financial service to low income clients such as microloans through a variety of products and a system of mediatory functions. Microfinance in the last years has been globally acclaimed as an important tool for poverty rebate in most developing countries (Anim, 2011) and a notion that microfinance can serve as a means to poverty reduction has attracted wide empirical research and public policy discourse.

The culture of savings and loan is not new to Ghana and hence the Ghana's government realizes the the important role microfinance plays in poverty reduction. The Growth and Poverty Reduction Strategy II (GPRSII) of Ghana had its main aim of maintaining an unbaised sustainable growth, accelerated poverty rebate and the protection of the deprived in a dispersed autonomous surroundings. The strategy is intended to eradicate the high income inequality among the poor who form the biggest part of the active working population. The 2000 Housing and Population Census found that approximately 80 % of the active population are found in the independent unofficial zone who are characterized by inability to access credit facilities.

According to Fin scope studies in 2010, Ghana has the highest share of its population (34 %) with formal banks accounts and 43 % of the population nevertheless remains excluded from all forms of financial services (Fin Scope, 2010) The present state of the financial system development in Ghana has partly succeeded in addressing the financial demand of the lower-income population and micro, small and medium social enterprise (MSMEs).specialised microfinance institutions (MFIs) have contributed in increasing financial inclusions in Ghana and as a result, regulations were realeased by the Bank of Ghana in 2011 requiring some to register and others become licensed according to the types of financial services provided (GHAMFIN, 2012).

The concept of financial services provision to the poor which enables them enlist in industrial activities because of their exclusion from access to such financial services from traditional commercial banks has been referred to as microfinance (Darko, 2013). As opined by Asiama and Osei (2007), the means of financial services provision to low income earners through a variety of products such as insurance, savings and transfer services is termed as microfinance

(Asiama and Osei, 2007). Institutions involved in microfinance provision were initially set up as non-profit organisations to offer products and services which meet the financial demands of the deprived. Based on the social objective of these institutions, their activities were largely financed with subsidies and grants (Darko, 2013).

According to Boateng (2014), the microfinance phenomenon is not new but has been operating for centuries. For instance, "cheetu" in Sri Lanka "Notable" in Indonesia, "tontines" in Cameroon, "pasanaku" in Bolivia and "susu" in Ghana. The activities can be etched to the 19th century when money lenders informally carry out the role of now formal financial institutions (Boateng, 2014). The concept in Ghana is known to have originated in Northern Ghana as the premier Credit Union in Sub Saharan Africa which was established by Canadian Catholic Missionaries in 1955. Susu, which is the widely known model of microfinance in Ghana, was adopted from Nigeria and spread throughout the country in the early 1990s (Asiama, 2007). Traditionally, people are known to have either saved with or taken some amount of small loan from individuals or groups perceived as self-help to set up businesses or farming ventures.

Microfinance has evolved as a tool for socio-economic development which is intended to benefit the vast majority of rural poor customers who are exempted from the formal financial system, that is, low-income earners (Baumann, 2001, 2004). The evolution of the microfinance industry into the financial structure of Ghana has made it available for small scale businesses to get credit which was difficult to have access due to difficult procedures adopted by the official financial institution.

Microfinance provides entrepreneurs with capital that helps them to start or expand a business venture (Owusu et al, 2015). Currently, MFIs provide financial services to an estimated 15 % of the population of the country as compared to 10 % for the commercial banking sector (Obuobie and Polio, 2010). In this view, the critical role played by microfinance institutions in development of local economies cannot be over emphasized especially in most developing countries such as Ghana (Ntiamoah et al, 2014).

Dichter (1999) refers the 1990 as the microfinance decagon whereby they experienced an increased growth in the number of MFIs formed and an accelerated importance on reaching scale, and turning into an industry (Dichter, 1999). The microfinance division in Ghana confirms to an increase in the number of registered and non-registered MFIs. One hundred and sixty one (161) MFIs were recorded in October 2012, by the Bank of Ghana whiles four hundred and sixty-eight (468) as at November 2015 (Ayeh, 2012). This shows a tremendous increase in the growth of MFIs in Ghana. However pleasing the intervention of MFIs may be, there are several challenges that fight against the tremendous growth of these microfinance institutions in Ghana. The research aims to examine the factors that contribute to the growth of MFIs as well as the obstacles that impede the growth of these institutions.

1.2 Literature Review

Microfinance over the years has grown into one of the effective tools used for fighting poverty. History suggests that it has long been used as a means of mobilizing funds at the unofficial part in the form of Susu which makes the use of microfinance is not recent in Ghana.

This chapter presents analysis of various literatures on factors that clout the increase of microfinance institutions. The literature explores to gives the review of definitions in the field of microfinance sector in Ghana, its evolution and various theories in microfinance and models involved in the delivery of microfinance services. The chapter also discusses the identified factors that can impede the growth of these institutions. They comprise factors such as the high default rate, inadequate capital, high operational cost and others.

1.3 Macroeconomic overview of Ghana

The economy of Ghana in the past decade, has stayed strong recording a high growth rates which have been complemented by the build-up of macroeconomic imbalances resulting in real GDP growth of 6.6 % in 2010 to 7.3 % in 2013. In 2014 and 2015, the growth rates fell to 4.2 % and 3.9 % respectively (Mf Transparency, 2011). Although Ghana recorded comparatively creditable economic growth in 2014, the economy is confronted with some challenges in the form of severe currency devaluation, weakening macroeconomic imbalance, extending energy crisis, rising inflation and interest rates and also uncertainty in policies due to changes of the political leadership in the country (Mf Transparency, 2011).

A report made by the Bank of Ghana (2014) shows that, the service sectors constitute 50.2 %, industry 28.4 % and agriculture19.9 % of the economy. The economy is anticipated to recover, recording a growth rate of about 6 % and this can made enhanced by the rise in oil and gas production, private sector investment, upgraded public infrastructure and the political stability of the country in 2016. Nevertheless, the prevalent international oil prices fall could affect this growth by the slow tread of economic growth in the future (BOG, 2014).

Ghana’s enhanced economic growth over the years according to Dary (2013) has helped the country in attaining the Millennium development goal of cut up poverty. Even though there is indication of growing differences in spatial development and income inequality across some regions, particularly in the northern regions (Dary, 2013).

1.3.1 The financial system of Ghana

Ghana's financial system has undergone a course of liberalization, transformation and restructuring over the last two years. The transformation process was due to the Financial Sector Adjustment Program (FINSAP I and II) executed from the late 1980 to the mid-1990 (Bank of Ghana, 2014). An overview by Ackah and Asiamah, 2014 shows that the banking stratum in Ghana was controlled by state owned banks with official apportionment and credit pricing in the 1990s and this led to the uncompetitive and inefficient intermediation process of the banking system, (Ackah and Asiamah, 2014).

Allen et al, 2010 stresses that the banking stratum had failures because credit resolutions lacked profitable attentions and also had limited innovation and appropriate governance structures. According to MOFEP (2012), the main attention of the financial restructurings was the reorganization of the commercially troubled banks, the progress of the supervisory and regulatory framework, and the upgrade of non-bank financial institutions (MOFEP, 2012). Successively after the reforms, the financial segment has experienced swift improvement in growth and diversity of financial institutions. Currently, Ghana assertions of a more differentiated financial system resulted in an outcome of the privatization state controlled banks and the improved competition caused by the licensing of numerous new banks, including many external ones (MOFEP, 2012).

According to a study by Asimah and Ackah (2014), banking industry in Ghana has transformed to welcome changes in the domestic and global macroeconomic environment, prudential regulation, organizational and conduct deregulation beside technological and financial innovation (Asimah and Ackah, 2014). Bank of Ghana (2014) states that, threats to the stability of Ghana’s financial system deepened in 2014 as a result of increased risk from global and domestic macro-financial developments such as the depreciation of the cedi, economic activity deceleration, Fiscal challenges, Upward trend in inflation which pose a serious challenges to the banking sector (BoG, 2014).

1.3.2 The Traditional financial sector in Ghana

The Ghanaian banking industry can be split into 3 distinct areas, namely, the Central Bank, Commercial, Universal Banks and Rural and Community Banks (Aveh et al, 2013). The financial sector is mainly led by banks which are equitably drenched consist of 27 commercial banks (from 16 in the year 2000), 137 rural banks, and 58 non-banking financial institutions including savings and loans, leasing and mortgage firms and 468 micro finance institutions (Asimah and Ackah,2014).

The biggest institutions in Ghana are the Commercial Bank (GCB) Limited, Barclays Bank of Ghana Limited, Standard Chartered Bank and SG-SSB Bank Limited. These banks have the most market share but competition from foreign banks mainly from Nigeria, has reduced the market share of these banks (Bank of Ghana, 2014). Most of the institutions in the formal sector are focused in the urban and peri-urban areas of Greater Accra, Eastern and Ashanti regions with little outreach to the rural areas of Ghana (fin scope, 2010).

Aveh et al (2010) found out that, Bank of Ghana considered the idea of rural banking some thirty- two years ago with the aim of widening and expanding financial intermediation in the rural regions and with the specific mandate of serving the exceptional needs of the rural population. The ARB Apex Bank Ltd is the mini Central Bank regulating the Rural Banks and Community Banks. The semi-formal division includes the key shareholders of the microfinance sub-sector in Ghana which includes the Ghana Cooperatives of Susu Collectors Association, the Credit Unions, Ghana Cooperative Council and lastly the Association of Financial Non-Governmental institutions. The informal section includes Susu clubs money lenders and (fin scope, 2010).

1.3.3 Financial Inclusion in Ghana

Alliance for Financial Inclusion (AFI, 2010), defines financial inclusion as all enterprises that make formal financial services handy, accessible and inexpensive to all sectors. According to fin scope (2010) investigation, entry to financial services in the urban areas in Ghana is greater in than in rural regions since urban areas are usually furnished with infrastructure that support financial services. Moreover, literacy rate beyond senior high education is fairly significant, comprising more than half of the population with less than 25 % with no proper education at all (fin scope, 2010).

Moreover, a national strategy for financial literacy and consumer education was introduced in January 2009, to give a better understanding and promote awareness of microfinance among consumers, microfinance service providers and policy makers and also incorporating various shareholders and the provision a platform to share paramount practices in the Microfinance Sector. The strategy also targets to deliver financial education to clients and help them understand their roles and responsibilities (fin scope, 2010).

1.4 Definition and Concept of microfinance

Micro finance is defined by Putzeys (2008) as the supply of a various types of financial services including loans, deposits (savings), disbursement services, money allocations and insurance to low-income households and their microenterprises (Putzeys, 2008). Otero (2009) also attest that, providing financial services to low income poor and very poor self-employed people is termed as microfinance. According to Putzeys (2008), microfinance refers to all kinds of financial intermediation services provided to enterprises low and income families in urban and rural areas, including workers in both the private and public sectors and the self-employed. Provision of such financial services as stated by Ledgerwood (1999), generally comprise of not only savings and credit but also include other services like insurance and other payment services. Schreiner, (2001) in support of the view of Ledgerwood defines microfinance as a way to enhance access of poor households to small deposits and loans who are often excluded from formal banks (Schreiner, 2001). Therefore microfinance could be said to involve the delivering of financial services which includes savings, deposits, loans and insurance to the poor both in urban and rural who do not have access to such services.

The microfinance phenomenon is not new and its origin lies in the numerous informal and traditional systems of credit that has been in operation in most developing countries since centuries. Many of the microfinance models currently used were developed from community-based mutual credit transactions that are based on trust, peer-based non-collateral borrowing and repayment (Putzeys, 2008).

Moreover, microfinance is identified as an economic development approach that includes the financial services provision to low income clients through an institutional approach. Such services include savings, credit, and insurance services (Ferka, 2010). MFIs also offer social services such as health and skills, training and education and organizational support in accordance with their development aims. Further, MFIs are affianced in providing micro credit to poor borrowers for self-employment and income generating activities (Wrenn, 2009). Owusu (2015) confirms to this by describing microfinance as financial institutions other than the traditional ones that render a wide range of financial and other complementary services to both the poor and the rich that require their services. He further cited that MFI provide other assistance including skill training, savings, insurance and other forms of capacity building other than financial assistance (Owusu, 2015).

This study adopts the definition of microfinance carved out of the above given definitions to mean all types of financial intermediation services other than the traditional ones that render a wide range of financial and other complementary benefits such as insurance, savings, money transfer, etc. as well as education and training, and advisory services to the poor and low income enterprises. Hence, microfinance programs are that which empowers people raises their self-confidence and make them feel more assertive to enter into the socio economic and political facet of the society.

1.4.1 Approaches to microfinance

There are two main diverse approaches of microfinance in the literature. These are the welfarist approach, which is also called the poverty approach, and the institutionalist approach also called financial system approach (Morduch, 1999).

The welfarist approach target the demand side, which is the clients. This approach support the view of subsidizing microcredit program so as to reduce cost for the microfinance institutions to offer lower interest rates on their loans (Morduch, 1999). The performance of the MFIs are measured on household level study focusing on the living standard of individuals; number of loans, number of saving accounts, incomes, productivity improvement, social services such as health, education and food expenditures. Welfarist argues that microfinance institutions can attain sustainability without the institutionalist definition of self-sufficiency (Congo, 2008).

They further argue that gifts, for example subsidies, from donors represent a form of equity which makes donors to be seen as investors. Unlike investors who acquire equity in an openly traded firm, MFI donors do not expect to receive monetary returns. However, these donor investors realize an intrinsic return and can be likened to investors who devote in socially liable funds, even if the predictable risk-adjusted return of the socially accountable finance is lower that of the indicator fund. These liable fund investors are eager to accept a lesser expected return since they also receive essential return form non-investing in firms that are tagged as offensive.

The institutionalist view of microfinance argues that a Microfinance Institution should be able to meet its costs with its returns. Institutionalist feel self-sufficiency leads to long-term sustainability for MFIs, which will facilitate greater poverty mitigation in the long-standing. Their argument is consistent with Congo (2008) who discusses historical issues in an effort to discover the institutional layout that lead to sustainability and success for the 19th century loan fund in the Germany, UK, and Italy. Secondly, the institutionalist approach criticizes subsidization as a result of huge transaction costs and unpaid rates which have led to the fall of many microcredit programs. This means that it is not sustainable for MFIs to be subsidized and that the subsidies result in an inefficient allocation of the financial resources. The economists aiding this idea points out that the welfarist make wrong assumptions when they claim that the repayment interest rate will be low because the clients are not credit worthy and unable to save leading to commercial banks being not able to thrive in rural areas due to the high cost of offering financial services to poor households.

The Institutionalist view of self-sufficiency as a prerequisite for MFI sustainability seems untenable until one realizes that there appears to be a trade-off between self-sufficiency and targeting. Most MFIs which have proven self-sufficient have inclined to loan borrowers who were either above or beneath the poverty boundary in their various countries (Morduch, 1999). These microfinance institutions are able to secure economies of scale by giving larger loans to the lightly poor. Those who support subsidization tend to put much greater social weight on consumption by the poor, assume highly sensitive credit demand to interest rates. Despite the lack of evidence, experienced practitioners on both sides of the debate hold their views strongly.

1.5 Overview of microfinance in Ghana

1.5.1 Evolution of microfinance in Ghana

Like many places of the world, the concept of microfinance in Ghana is not new. The provision of credit and savings has operated for centuries in the form of “Susu” in Ghana and “arisan” in Indonesia (CGAP, 2006). The credit union are believed to have existed in the pre-colonial independent era in addition to the preexisting traditional Susu scheme which is one of Africans most ancient forms of informal banking (Aryeetey,2008).

The first credit union in Sub Saharan Africa based on available data shows that was built in Northern Ghana by Canadian catholic missionaries in 1955 (Assibey, 2010). Moreover, Susu, which is known to be the first microfinance scheme in Ghana, is believed to have been adopted from Nigeria and spread to other countries like Ghana in the beginning of the twentieth century (Asiama, 2007).

However, not until the early 1990s when development agenda shifted from one of growth-led to poverty reduction and the importance of microfinance were highlighted, these institutions were largely recognized more as social welfare, cooperative groups other than financial institutions (Assibey, 2010). In the case of mainstream finance in the country, microfinance is known to be completely absent in the 1950s (CGAP, 2006). There existed only two foreign banks namely standard chartered bank and Barclays bank which were deemed as well established and neglected the indigenous farmers and small entrepreneurs in granting loans. Consequently, the government tried to reverse the trend after independence in 1957 by redirecting the allocation of financial resources towards domestic investment through direct controls and specialized banks (Assibey, 2010). As the world in the 1990s witnessed growing enthusiasm for promoting microfinance as a strategic tool for poverty alleviation, Ghana responded as part of comprehensive reforms (CGAP, 2006).The Bank of Ghana (2007), reports that, microfinance has undergone four specific phases worldwide including that of Ghana. These stages are conferred below:

Phase One: The first stage dealt with the provision of Government subsidized credit which commenced in the early 1950’s the notion that, inability to access credit was the crucial hindrance to the eradication of poverty.

Phase Two: The second stage of microfinance industrial revolution involved the use NGOs as the main channel of loan availability to the underprivileged in 1960 and 1970’s. Throughout this period financial self – sufficiency and sustainability were reckoned unimportant.

Phase Three: Formalization of Microfinance Institution (MFIs) in the 1990s.

Phase Four: The commercialization of MFIs in the mid 1990's into the financial sector.

Microfinance sector over the years, has evolved and developed into its current status as a result of financial sector programmes and policies such as the availability of subsidized credits, liberalization of the financial division and the circulation of PNDC Law 328 of 1991, rural and community banks (RCB) establishment, and also the non- bank financial institution (NBFI) law in 1993, that endorsed the establishment of diverse kinds of non-bank financial institutions, including microloans and savings companies, credit unions, and finance houses etc.

Microfinance in Ghana is understood as a sub-sector of the financial division, consisting of diverse financial companies which use a specific financial procedure to reach the poor. The Microfinance sector consists of various kinds of institutions and which have been divided into four categories, specifically:

1. Saving and microloans companies, community and rural banks, and some commercial banks and development from the formal suppliers;
2. Semi-formal suppliers includes cooperatives, non-governmental organizations (FNGOs), and credit unions;
3. Rotating and accumulating saving and credit association (ROSCA), Susu collectors and clubs, moneylenders and others make up the informal suppliers.
4. And finally, Public sector programs that have developed financial and non-financial services for their customers (BOG, 2007).

1.5.2 Regulation of microfinance in Ghana

The legal frame work and guiding principles of the financial system of a country is termed as regulation. Regulations of the financial system sets out the rules for entry and exit of the financial sector by regulatory bodies such as central bank or ministry of finance which determines and limits the businesses and products and also specifying the criteria and standards for sound and sustainable operations of the financial industry (Gallardo, 2008). Regulations of the financial system include forms of self-regulation and auxiliary regulation by governing boards of financial institutions, their associations, networks or apex organizations.

The regulatory framework for regulating rural and community banks in Ghana falls within the Banking Act, 2004 of the central of Ghana (BoG, 2007). Savings and loans institutions currently fall under the Non-Bank Financial Institutions (NBFI) of Law 1993 (PNDCL 328). Preparation for a Credit Union regulatory framework is currently under way and would be regulated and will operate as cooperatives and financial institutions. Other financial intermediaries such as ROSCAS, FNGOs and ASCAs on the other hand are not under any legal nor regulatory framework. Bank of Ghana report (2007) further states that, programmes currently addressing the financial sub-sector consists of the Financial Sector Strategic Plan (FINSSP), United Nations Development Programme (UNDP), Financial Sector Improvement Project, the Microfinance Project, the Rural Financial Services Project (RFSP), the Social Investment Fund (SIF), Rural Enterprise Project (REP), the Community Based Rural Development Programme (CBRDP), and Agricultural Services Investment Project (ASSIP).

Gallardo (2008) indicated that, several Non Governmental Organizations (NGOs) operating under the Law on Trust and Charitable Institutions by private individuals as trust or charitable institutions to a larger extend provides microloan and other financial services to their clients without proper regulation or external supervision from government regulatory bodies. Most NGOs belonging to the provision of microloans fall under a common umbrella organisation in Ghana referred to as the Ghana Microfinance Network (GHAMFIN). GHAMFIN is a body set up to regulate and provide training to stuffs of MFIs in Ghana and assisting in organisational capacity building as well as ensuring the practice of the standards and guidelines as proposed by the central bank of Ghana to improve on efficiency of operations of the microfinance industry in Ghana (Assibey, 2010).

Again Volschenk (2008) in examine microfinance in Tanzania reveals that the Tanzania association of microfinance institutions is an umbrella organisation for microfinance institutions and other industry stakeholders operating in the microfinance sector in Tanzania which self-regulate and educate it members of best practices. It also develops a vibrant microfinance industry in Tanzania through capacity building of MFIs as well as acting as a forum and network for advocacy on behalf of MFIs (Volschenk, 2008).

1.5.3 Government involvement in microfinance

In 1959 government instituted loan schemes for rural and agricultural ventures, as these areas were not being served well by commercial banks, such as the Barclays Bank, Standard Chartered Bank and Ghana Commercial Bank, which focused on the urban areas at the expense of the rural areas (Ferka, 2011). Rural people found the size and bureaucracy of commercial banks, particularly the demand for written documentation to be unfriendly. They also had difficulty meeting the demand for collateral security thus these banks were regarded as structurally biased against the rural poor (Ferka, 2011).

Bank of Ghana Act (1964) was established among others, the Rural Banking Department to address the state of affairs of the Agricultural Credit and Cooperative Bank established in 1965 and the Agricultural Development Bank (ADB) also established in 1967. For all banks established prior to 1986, the policy was providing low interest rate to the rural and agricultural sector and increase proportion of portfolio to agricultural sector (Asiama & Osei 2007; Egyir, 2010). Women's groups particularly those in agro processing and farming, were encouraged to participate in microfinance schemes implemented by the National Commission of Women and Children (governmental) and the 31st December Women's Movement (a non-governmental organization). The main laws that guide the conduct of financial institutions are the, Banking Law of 1989 and Non-Banking Financial Institution (NBFI) Law of 1993 (Assibey, 2010).

The government realizing the importance in its overall poverty reduction strategy in 2006 established the Microfinance and Small Loans Centre (MSLOC). Among some of the objective were to provide soft loans to petty traders and small business operators and to coordinate and enhance all microcredit schemes by government agencies and also to intervene in the micro and small enterprise sector to enhance access to credit by groups and individuals for business expansion (Assibey, 2010). Although no official records have been obtained, it is well known that the target of micro entrepreneurs in groups has led to a high level of inclusiveness by women micro service providers, particularly wholesale and retail traders of food and non-food commodities (Egyir, 2010).

1.5.4 Models of Microfinance Intervention

MFIs employs different implementation methods to target their clients. These are referred to the models of microfinance institutions. The Grameen Bank established 14 different microfinance models of which the research focused on three in this literature. They include; Rotating savings and credit association (ROSCA), the Grameen Bank and the Village Banking model. These three microfinance models that are mostly practice in Ghana. The following section explains each model employed in the research.

1.5.4.1 Rotating Savings and Credit Association.

Rotating savings and credit association model is practiced on the basis of group formation usually not above 20 people in a group. A regular cyclical contribution is done among the group and a lump sum is given to a member of the group in a rotational form (Grameen Bank, 2000). Yunus (1999) states that, the rotating saving and credit association model is the most common model of practiced in terms of savings and credit acquisition and that, group members are usually friends and or neighbors which brings about trustworthiness and creates the opportunity for social interaction (Yunus, 1999). Most often, the rotating saving and credit association model is referred to as the Self-Help Group or the merry-go round type of microfinance (Yunus, 1999).

1.5.4.2 The Grameen Solidarity Group model

The Grameen Solidarity Group model is a peer group model based on individuals of four to seven members. Loans or microcredit are given on individual basis in which individuals serve as a form of collateral and access to consecutive loans are made available only when all group members have successfully repaid their loans (Yunus, 1999). Short periods of loan repayment are normally practiced under this type of model which is done either on weekly or monthly basis (Ledgerwood, 1999). Grameen bank (2000) noted that, the successful implementation of the Grameen solidarity group microfinance model has effectively improve the loan repayment of clients contributing to low default rates as evidently proven by the Grameen bank and other institutions that employ the use of the model. The authors further describe the model as contributing to a broader social benefits due to mutual trust that exist between group members and therefore, the formation of a broad network of social interaction (Grameen, 2000).

1.5.4.3 Village Banking Model

The village banking model is a community based credit and savings association which is usually managed by NGOs in the financial services provision. Village banking is composed of community self-help groups of usually 20 to 50 members with the aim of accumulating savings to help each other (Hulme, 1999). Individuals are usually low income who seeks to improve their living conditions and engage them in higher income generating activities. Members of the village banking model are the sole owners of the group who elect officers, establishing of by-laws, the distribution and collection of loans and the overall management of the group Moral collateral is used in this model and is based on the promise of individual members towards loan repayment (Grameen Bank, 2000).

The village banking is most often supported by MFI sponsoring organizations. Loan capital received is lent to individual members who are required to sign a loan agreement contract which ensures a collective loan guarantee. A twenty percent (20 %) of the loan amount is usually required from each member to save which are used to in the financing of new loans and serve as a collective income generating activities ensuring long term participation by each member. The village banking model unlike other models do not require members to pay any interest on loan received as the main aim is to help each member engage in higher income generating activities. Ledgerwood, (2008) notes that, this microfinance model is usually targeted at women and as such, Hulme (2009) attesting to the fact that, women participation in the banking model will improve their social status and household decision making power and therefore empowering them (Ledgerwood, 2008; Hulme, 2009).

1.5.5 Trends in Ghana's microfinance industry

The microfinance business is spreading very fast in Ghana. This may be partly due to the acclaimed potency of microfinance in the fight against poverty. It is now common to see offices that have inscription advertising the provision of microfinance services. These firms mainly provide loans and mobile banking which is commonly known in Ghana as Susu (Ayeh, 2012). The increasing number of MFI, whether it is registered Susu business or on-lending MFI, is an encouraging phenomenon for the microfinance industry in Ghanaian.

Table 1: Number and Trends of MFIs categories in Ghana

Type of MFI	**2000**	**2006**	**2008/2009**
Rural and Community Banks	115	121	129
Savings and Loans Companies	8	12	17
Not-for-Profit NGOs	225	273	350
Credit Unions	8	29	409
Susu	~1000	~1000	~1259

Source: Samuel K. Annim, 2011.

Ayeh (2012) further stated that an increasing number of the MFI will help provide end users (low-income earners and the poor) with alternative services and products to choose from with reference to their financial needs. The increasing number of MFI will also break the cycle of monopoly and lead to a more competitive industry that will meet the financial and non-financial needs of the poor and low income earners. Growth in terms of numbers of MFI is expected to improve the accessibility of financial services to large non-banked population in Ghana and thereby, lead to an improvement in the services and products being offered to the informal sector or market (GHAMFIN, 2014).

1.6 Microfinance and Development

Microfinance comprises the provision of financial service facilities and management of small loans through a variety of products and systems of intermediary function aimed at small income clients. Microfinance products usually consists of savings and loan provision, insurance, transfer services and other forms of financial products and services (Asimah, 2007).

According to the United Nations (2010), financial products and services provision by microfinance institutions plays an enormous role in ensuring access to broader range of financial products to the poor. The roles microfinance institutions play in the development of many developing countries is shown by its ability to provide an arena for access to financial services by the poor who are unable to access financial products from formal banks. The notion that access to financial services by the poor is a key resource for poverty alleviation which in turn helps them to have the capacity to use acquired loan for income generating activities, improve on their saving habits and also repay their loans. Research shown on the inability of the formal financial sector to provide financial products to the poor who are in a high demand for such services, has brought the microfinance industry into the limelight as one tool that will harness the development of many developing countries such as Ghana (UN, 2010). More so, the microfinance industry is on the view of being viable and sustainable through achieving full cost of recovery and hence the significant effect of the industry towards critical issues such as women empowerment, the reduction in the spread of HIV/AIDS, environmental degradation as well as improvement in some social indicators like education and health on the household level, is a contributing factor to the importance attributed to the industry.

Many studies in the field of microfinance have proven that, microfinance has helped in the development of many economies on three fronts. Firstly, microfinance has helped the very poor households on their livelihood improvement by enabling them to meet their basic needs. Also, microfinance has helped in improving the economic welfare of poor households as well as contributing to the empowerment of women through supporting economic participation of women and thereby promoting gender equality (UNCDF, 2009).

Asimah (2007) as cited in Otero (1999) outlined the enormous contribution of the microfinance industry towards combating poverty. Through the creation of access to productive capital to the poor, coupled with the provision of human as well as social capital addressed through training and educational programs which is achieved by building local organisations enables the poor to move out of the poverty stream (Otero, 1999). Provision of material capital to the poor as opined by Otero, (1990) has the ability to improve their sense of dignity which in turn helps to empower them to participate in the society (Otero, 1999).

The aim of most microfinance institutions according to Otero (1999) is not combating poverty through the provision of capital to the poor but also play an institutional role (Otero, 1999). The industry seeks to create an institution that offers financial services to the poor who are constantly ignored by the formal baking sector. As noted by Littlefield and Rosenberg (2004), MFIs have emerged as a result of the formal financial sector not able to provide financial services to the poor and therefore the reason for MFIs to address this market failure (Littlefield and Rosenberg, 2004). In the quest to address this financial gap, MFIs have the ability to be part of the formal financial sector which will enable them have access capital markets to finance their lending portfolio which will enable them increase their outreach potential (Otero, 1999).

In recent times, authors such as Anim (2011) have outlined the important contribution of the microfinance industry towards achieving the Millennium Development Goals. Through the provision of financial service facilities to the poor, MFI have the ability to reach the MDGs through building a global financial system which meets the demands of the poor in society (Anim, 2011). Adding to this, Littlefield et al (2003) states that, the microfinance industry is a unique development intervention which is based on the provision of social benefits on a continual, permanent or large scale basis. The authors with reference to other researchers showed the critical role played by MFIs in improving the education, health, eradication of poverty and empowerment of women among rural households (Littlefield et al, 2003).

Contrary to the above mentioned positive impact of microfinance towards development, other authors argue otherwise. Owusu (2015), states that, despite the enormous contribution of the microfinance sector towards development, it is also of outermost importance to recognise that, MFI is not a white shot in the fight against poverty (Owusu, 2015). The authors in their work on microfinance though recognising the role of MFIs in poverty reduction concluded that, the MFI industry is not sustainable and hence most MFI schemes are ineffective as it may seem. Microfinance as according to the authors is not the sole contributor to poverty reduction and as such, research suggests that, the poor are made worse off after accessing MFI services (Assibey, 2010). More so, Ayeh (2012) supporting the argument lay down by Hulme and Mosley found out five major problems associated with MFI service provision. He states that, MFI approach to poverty alleviation is based on a single sector approach to allocation of resources towards the fight against poverty. The provision of microcredit to the poor is irrelevant and as such an over simplistic notion of poverty is been used. There is also an over-emphasis of the scale coupled with an inadequate learning without any relevant change (Ayeh, 2012).

Wright (2000) in his research was on the view that, the much scepticism attributed to the MFI industry is as a result of failure by most MFIs to reach the intended poorest of the poor who require their services most and as such drives most women clients of MFIs into depending on their husbands which eliminates the empowerment of women as one importance of MFI establishment. More so, Wright was on the notion that, most development practitioners find microfinance inadequate for poverty reduction because, microfinance actually drives funding from more important development issues such as health and education of the poor (Wright, 2000).

1.7 Factors of growth of microfinance institutions in Ghana

The microfinance industry grew at exceptional rates over the past five years despite the participation of the low income earners and so called Poor in microfinance institutions (CGAP, 2010).MFIs continues to thrive despite the challenges that they surround them, e.g. High rate of defaulters and operational cost and others. Growth was driven by increasingly competent and confident MFIs with a social mission to increase outreach to the poor and the unbanked (Njeri, 2013). During the same period, there were also the introduction of innovative products, funds from international sources and donors and the provision of quality customer services to clients.

1.7.1 Introduction of Innovative products

The introduction of new designs and the production of goods and services by an organization onto a market which is new to the organization itself and its competitors is termed innovation (Mytelka, 2009). Innovation according to the OECD's Oslo manual (2005), includes the implementation of newly improved products, new marketing strategies, an organizational method in business practices and or work place organization (OECD, 2005). The microfinance industry in Africa in their strive to maintain sustainability requires its ability to reduce cost of transaction and therefore the need to develop technological innovations that will enhance their outreach potential and boost overall profitability of the industry (Mytelka, 2009).

Okenyebuno, (2007) and Igbinedion et al (2008) surmise that, MFI products in Nigeria are generally include the provision of microloans, savings, micro insurance, money transfer and business management education. Innovative products such as the provision of collateral surrogates such as group guarantee, working capital, access to repeated and large loans, informal and formal assessment of borrowers and the advice and monitoring techniques (Igbinedion et al, 2008; Okenyebuno, 2007).

Schmidt and Rammer (2006) concluded that organisations that are able to introduce new but innovative products are expected to improve their marketing strategy as a result of the introduction of this innovative product. This leads to the attraction of clients to the institution resulting in an increase in cliental base and returns which results in the institution being financially sustainable (Schmidt and Rammer, 2006).

1.7.2 Receiving Funds from International Sources and Donor Funds

Funding the operations of MFIs all over the world remains one of the very important factors in ensuring that the MFI have the needed resources to effectively bridge the financial gap existing between the formal and informal sector of any economy (Ayeh, 2012). Donor funds or funds from international sources are central to supporting the growth of the microfinance industry. This funding is received in the form of subsidized or grants, wholesale credit and this support capacity building activities. Access to funds by MFIs helps reduce high interest rate on loans leading to their ability to reach out to more clients (Aryeetey, 2008).

Although there are many positive sides to donor funding to some extent can affect the mobilization drive of some MFIs since they do not have to mobilize from the public to meet their on-lending needs. This also affects the saving ability of the poor clients and in turn does not inculcate the habit of savings into the poor. This type of funding can also lead to external influence since they are issued with restrictions or directives on what type of activities to be financed or who can be eligible which can lead to mission drift (Ayeh, 2012). Volschenk (2008) in a study on the factors influencing the growth of MFI in Tanzania, found out that inadequate donor funding (for donor dependent organizations), an unclear ownership structure, too much donor intervention as well as legislation and regulatory framework that is not conducive to allow sound MFIs to emerge and grow (Volschenk, 2008).

The study of Mulunga (2010), on the factors of growth of MFIs in Namibia argues that lack of funding limits the MFI to meet the capital requirements of clients and this reduces the level of outreach and impact, on the other hand, While continuous donor subsidy will enable the MFI to cover the operational expenses, it could lead to a state of dependency and inefficiency and also MFIs need to identify alternative ways of funding to avoid donor over reliance, especially in view of drying up of donor funds (Mulunga, 2010).

Contrary to this, there are several reasons to expect that subsidies may contribute to increase the efficiency of MFIs. In particular, subsidies allow institutions the breathing space to invest in developing of its human resources base as well as its infrastructure to increase efficiency and quality of service in the long-run (Ayeh, 2012).

1.7.3 Provision of Quality Customer Services

The key to reaching large numbers of clients understands their needs. Microfinance views clients as customers not beneficiaries or objects of charity. MFIs that see their borrowers as customers seek to match their services with what the customer wants. Products tailored to meet client demand might include shorter loan terms, quick turnaround of loan applications, and highly liquid savings services (UNDP, 2008).

Mulunga (2010) attest to this indicating that by focusing on clients' needs, the MFI will be able to provide the required services needed by the clients leading to a high level of satisfaction. She furthers cited that providing financial services without considering the needs of the target market is tantamount to failure because MFIs should be client driven. This constraint will therefore limit the MFIs in achieving their objectives. Volschenk (2008) confirms that the success of MFI growth is higher where service quality to customers is good.

1.7.4 Increase in Cliental Base of MFI

Outreach refers to the central purpose of microfinance to provide large numbers of very poor in society with access to quality financial services. Concern to outreach is critical because there are millions of households and enterprises that lack access to financial services. If these millions are to be reached, MFIs must have the capacity that allows for significant growth and expansion. The most successful examples of large-scale outreach have been accomplished through specialized financial institutions (UNDP, 2008).

Growth is defined by the oxford dictionary as an increase in size. Increase in cliental base of microfinance institutions depends on measures which when adopted will significantly improve the life and operations of the institution (Aveh, 2013). This leads to MFIs ability to give out more loans which in turn yield high returns. Moreover, high return leads to the opening of more branches resulting in a high outreach of clients and hence a general growth of the MFI (Aveh, 2013).

The microfinance industry in Ghana as stipulated by Boateng (2014) in his research on assessing the effectiveness of microfinance institutions in Ghana found out that, close to 300,875 active borrowers have been registered under 198 MFIs across the 10 regions of the country (Boateng, 2014). The Microfinance Information Exchange market (MIX Market) database reports that, over ther few past years, a total of 3 million active microfinance borrowers with gross loan portfolio of $461 million across 560 MFIs were recorded in 2013. The increasing number of active borrowers coupled with the increased gross loan portfolio indicates the outreach potential of the MFI industry in Ghana and the rapid growth of the MFI industry.

Mulunga (2010) also in a study done on the determinant of growth of microfinance industry in Namibia point out that, the outreach potential of MFIs in Namibia formed an important aspect of microfinance in relation to the fact that the fundamental principle of microfinance is to reach the largest number of unserved poor who are unable to access financial services. The study further stated that for microfinance to grow there is the need to attain greater outreach which also leads to the sustainability of the institution (Mulunga, 2010).

1.8 Obstacles to the growth of microfinance institutions in Ghana

The microfinance sector of Ghana in the past years has shown positive signs of growth and has impacted on the socio-economic lives of the poor. Despite these positive signals of growth, the MFI sector is of the notion of being in its initial stages of growth and hence a lot to be accomplished in terms of outreach and financial sustainability of the industry (Mf transparency, 2011). Some of the main obstacles facing microfinance institutions in Ghana include poor management skill, inadequate capital, high operational skills and high default rate.

1.8.1 Poor Management skills

According to Asimah (2007), at the commencement of government of Ghana's involvement in microfinance industry in the 1950s, the sub-sector has been in operation without a well established policy guidelines and goals, with lack of a clear link between formal and informal financial institutions which leads to inadequate skills and professionalism (Asimah, 2007). Bank of Ghana (2007) outlines that, the absence of a clear governance and inadequate capacity as well as membership structures for GHAMFIN in relation to human resources, organizational structure, conditions, systems and procedures to enable it executes its functions. Poor management which affect growth of MFIs are as a result of improper records keeping which results from improper gathering of information about their clients. Staffs also lack the needed training and skills needed to give out the required services to their clients (Asimah, 2007)

Volschenk (2008) on a study of the factors affecting the growth of MFIs in Tanzania found out that Failure to maintain good quality of loan books lead into delinquency risk, credit risk and payment default risk. Frauds such as corruption, embezzlement, misappropriation and theft of asset have resulted into high administration costs detrimental to MFIs' growth.

1.8.2 High Default Rate

High default rate has been documented as one problem faced by many MFIs and CGAP (2009) states that, a loan becomes delinquent when repayment is late. Addae-Korankye, (2014), surmises that, a loan delinquent becomes defaulted when a minimal chance of repayment is reached (Addae-Korankye, 2014). Various definitions have been given by authors to understand the meaning of loan default. For instance, Ameyaw-Amankwah (2011) states that when a client is unable able to fulfil the legal obligations as per the debt contract, the term default occurs (Ameyaw-Amankwah, 2011). Adding to this, Murray (2011) defined loan default as the inability of a borrower to repay the required loan amount when time was due.

Microfinance sustainability is a prerequisite for the growth of the MFI and hence the ability of an MFI to successfully retrieve all its loans affects its sustainability. As noted by Warue (2012), the commonest and most serious susceptibility of the MFI industry lies in the fact that an MFI may not be able to recover all of its loans paid to clients which in turn leads to high default rate (Warue, 2012). The ineffective appraisal of clients, inadequacy of collateral security or equitable mortgage against loans, deficient analysis of project viability, lack of follow up measures and schedule of repayment, as well as unrealistic terms are known to be factors contributing to high default rates. As described above, poor management on the part MFIs is suggested by Aveh (2013), as one contributing factor to high default rate (Aveh, 2013).

The study of Abdel Rahim (2014) on the challenges of Microfinance institutions in Jordan points out that default rate is one of the challenges of MFIs in Jordan using a T test to test the average of the Likert scale. He further recommended to the MFIs in Jordan not to microcredit to finance extremely poor people who do not have stable income as microfinance will push them to debt and poverty. Njeri et al (2013) and Volschenk (2008) in a study of the factors affecting growth of microfinance in Kenya and Tanzania respectively confirms the fact that high default is a major challenge affecting the growth of MFIs (Njeri, 2013; Volschenk, 2008).

1.8.3 High Operational cost

Microfinance institutions vary widely based on different factors that impact operating costs. These factors includes not only loan sizes but the age, client location, scale and type of loans provided, communication client stability and transport infrastructure, salary levels, and rural versus urban location (CGAP, 2009).The cost of operations is mostly driven by the transaction and administration costs of loan which are generally small relative to the processing costs. Interest rate charged is another cost driver because MFIs are not able to charge adequate interest rates to break even in view of the interest rate ceiling imposed by the country’s act.

Lack of formal track records of the microfinance clientele most of whom are first time users of financial institutions also led to high operational cost. This occurs because limited information about the clients makes it difficult to assess the credit worthiness of the clients. Lack of information about the clients might lead to adverse selection and moral hazard leading to loan default. In order to mitigate the credit risk, the MFIs should ideally adopt the Grameen Bank solidarity group model, which have been effective in the reduction of loan delinquency (Mulunga, 2010).

Volschenk (2008) indicates that the costs of serving sparsely populated areas are higher in terms of transportation and time consumed. Low population density can cost a lender up to 20% of loan income to reach his/her clients. High costs make it difficult for some MFIs to sustain their operations from loan revenues alone. Costs to MFIs affect the rate at which the fund their loan books, salaries of staff and infrastructure expenses but may be worsened by unreliable infrastructure, an inefficient payment system, commissions and poor selection procedures. Limbu (2010) in a study found out that, the increased competition in microfinance sector in Tanzania has resulted in improved quality and quantity of financial services and products offered but has made the sector difficult for MFIs with high cost of capital burdens. The majority of microfinance institutions' interest on income goes to pay operating costs including salaries and other administrative costs, which constitutes about 60 % of total MFI costs (Limbu, 2010)

In a study by Ghamfin (2012) on the performance and benchmarking of MFIs in Ghana, the ratio of operational cost to gross loan portfolio ratio is an indicator of efficiency in portfolio management (Ghamfin, 2012).The lower the ratio, the greater the efficiency in cost management and vice versa. In an example shown below, RCB appears to be the most efficient over the period, having recorded a ratio between 14 % and 20 % over the period, while S&Ls ranged from 22 % to 28 % and FNGOs from 22 % to 39 % (figure 1). This shows that when operational cost is well managed leads to the efficiency and growth of the MFIs.

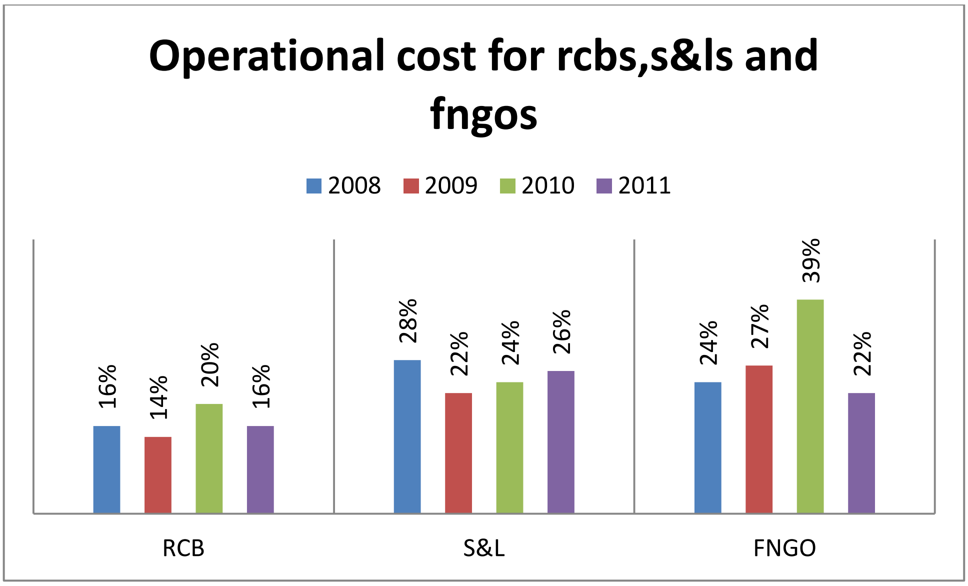

Figure 1: Operational cost per gross loan portfolio for RCBs, S&Ls and FNGOs (2008-2011)

(Source: GHAMFIN, 2012).

1.8.4 Inadequate Capital

Although microfinance regularly argues to be new and has self-sustained development policy, it is recognized that very few MFIs have reached independence from donors' funds. The standard remains subsidization. Morduch (1999) states that much of the success of microfinance has been as a result of receiving subsidies from international financial sources which is deemed unsustainable (Morduch, 1999). The trade-off between the outreach potential and financial performance has been the main argument of MFIs looking for subsidies beyond the start-up phase. A number of non-profitable clients decline when the MFI faces more subsidy uncertainty (Limbu, 2010).

Bank of Ghana (2007) found out that, the funding for the sub-sector has been from three main sources. These are the institutional level, development partners and government. The study shows that available funds have not been adequate and secondly, the different sources that come in emanate with their associated conditions and thus alter the market. It is therefore necessary to establish a central microfinance fund which will serve as a pool of financial support to MFIs for their operations (Bank of Ghana, 2007).

1.9 Conceptual framework

A conceptual framework is a model which presents and explains the relationship between specific variables of a study. The above assessment of literature suggest that the growth of Microfinances was determined by increase in outreach of clients, funds from donors and international sources, quality services offered to customers. The variables used in the study include;

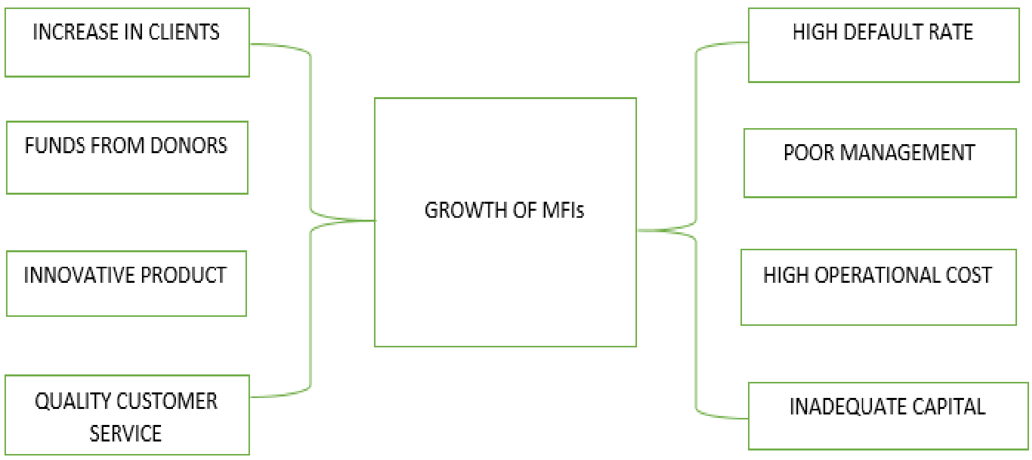

Figure 2: Drivers and obstacles of growth of MFIs in Ghana

(Source: Author's own adopted from Owusu, 2015)

2.0 AIMS OF THE THESIS

This study therefore aims to identify the factors leading to the growth of microfinance institutions and the challenging factors that affect the growth of these institutions.

2.1 Objectives of Study

The general objective of this study was to find out the factors that influence the growth of microfinance institutions in Ghana. Despite the involvement of the low income earners and the very poor in MFIs, these organizations continue to thrive despite the challenges that they surround them.

2.2 Specific Objectives

The study was to focus on the following specific objectives:

1. To determine which factors drives the growth of Microfinance Institutions in Ghana.
2. To determine the factors that hinders the growth of Microfinance Institutions in Ghana.

2.3 Research Questions

Drawn from the above objectives, the study was seeking to answer the following questions:

1. Does the number of clients affect the growth of MFIs in Ghana?
2. Does the introduction of innovative products affect the growth of MFIs in Ghana?
3. How does high default rate influence growth MFIs in Ghana?
4. Does poor management influence the growth of MFIs in Ghana?

2.4 Research Hypothesis

1. There is a significant relationship between variables deemed as drivers of growth and the growth of microfinance institutions in Ghana.
2. There is a significant relationship between variables deemed as obstacles of growth and growth of microfinance institutions in Ghana.

3.0 Materials and Methods

The purpose of the study is analyzing the factors that influence the growth of microfinance institutions in Ghana. The study specifically looked at the drivers as well as the obstacles of growth of MFIs operating in the Accra Metropolitan area.

This part of the study describes the research methods used in data collection of the study, the process used in data collection, the collection techniques used, the target population, the sample size and sampling techniques used and finally the data analysis method employed.

3.1 Research Design

The research was focused on Microfinance institutions operating in Accra metropolis. The study made use of purposive method of sampling technique which is a non-random sampling method used to select the various MFIs for the study. The MFIs selected for the study must be registered and operating in the study area for a two year minimum period. This paradigm was chosen to ascertain the longevity, trustworthiness and experience in financial service provision of the MFIs in the research area. In accordance to the above mentioned criteria, MFIs such as Opportunity International, Unicorn Happy Investment LTD, Christian community microfinance limited were selected.

3.2 Study Area

The study was conducted in the Greater Area Region of Ghana. The region is the smallest amongst the ten regions of the country in reference to land size. The region is estimated to have a total population of 2.3 million which make up an area of 3,245 km^2 (GSS, 2013). It shares borders to the north with Eastern region, Gulf of Guinea to the south Volta region to the east, and Central region to the west (see Appendix for map).

As stated by the 2010 population and housing census reports that the region has the highest urban population of about 16.3% (GSS, 2010). Approximately 31.6% and 14.8% of the total population work in wholesale and retail trade. This has led to the out spring of the various microfinance institutions in the region due to a big market base. An estimated number of 206 MFIs has been registered and operating in the study area (BoG, 2015). Base on the increasing number of MFIs in the area makes it suitable for the research.

3.3 Sample Size

A sample size of 85 Microfinance institutions were targeted for this study and hence adequate number of questionnaires prepared to meet the target population. A total of 70 questionnaires out of 85 questionnaires distributed were successfully answered and returned. This represents an 82 % success rate and therefore can be deemed accurate for the analysis.

3.4 Data Collection Technique

The data technique adopted for the study was primary and secondary. Administration of questionnaires was the main medium for the primary data collection. Questionnaires were distributed to managers of microfinance institutions to obtain a firsthand information on the factors that can be classifies as drivers and obstacles to the growth of MFIs in Ghana. This enabled the researcher to answer the set aims as proposed in section 2.4 above.

The secondary data were obtained from reviewing related journals and literature as well as important books relevant to the study. Newspaper sources and policy documents of the government of Ghana and other related sources such as the microfinance database and Consultative Group to Assist the Poor (CGAP) were used.

3.5 Data Analysis and presentation

Data was analysed using qualitative and quantitative measures. Computer software such as Excel (version 2008) and Statistical Package for Social Sciences V. 20 (SPSS version 20) was adopted for the analysis of the data obtained from the field survey. Respondent's reviews from the questionnaires were edited, coded and computed before it was analysed in the form of quality analysis (see appendix for the questionnaires).

3.6 Research model specification

To investigate the factors of growth of MFIs in the study area and to answer our research hypothesis, the study followed the methods used by Abdelrahim (2014). The study first calculated on a five point Likert scale, the views of the managers on the factors that affect the growth of microfinance institutions in Ghana. The formula below was used;

$$\frac{\boldsymbol{NR*LCV}}{\boldsymbol{TNP}} \qquad (1)$$

Figure 3: Likert scale calculation formula

Where;

NR is the Factor Specific Response

LCV is the Likert Scale Value

TNP is the total number of respondents.

Based on the Likert Point Scale value obtained, the study further investigated by the use of independent sample t- test analytical tool to test for the significance between the dependent and independent variables. This method was chosen to explain if there exists a significant relationship between the factors deemed as drivers and obstacles of growth of MFIs in the study area as described in table 2

Table 2: Dependent and Independent variables

Dependent variables	**Independent variables**
	Innovative products
	International source of fund
	Quality customer care
Number of Active Borrowers	Cliental base
	Poor management
	Default rate
	High operational cost
	Inadequate capital

Source: Author’s own from research questionnaire.

4.0 RESULTS

This section of the study describes the analysis and interpretation of results obtained from the field survey. As described above, the survey was conducted among managers of various microfinance institutions operating in the Greater Accra region of Ghana. A total of 70 questionnaires out of 85 questionnaires distributed were successfully answered representing an 82% success rate and hence deemed accurate for analysis. The section begins by given a brief background description of the various microfinance institutions employed in the study. This is followed by the views of the managers on the factors that are considered as drivers of growth of microfinance institutions in the study area. Factors deemed as obstacles of growth of microfinance institutions in the study area by the mangers are then described. The section ends with an empirical analysis of the factors considered as both drivers and obstacles to test for significance among the factors.

4.1 Brief description of MFIs

A total of 70 microfinance institution managers were interviewed. Out of this, 68 of them were private owned and 2 were public owned representing 97.1 and 2.9% respectively. It could be said based on the obtained results that, most microfinance institutions operating in the Greater Accra region of Ghana are owned by private individuals with a less government involvement in financial service provision through microfinance. This is illustrated in the table 3.

Table 3: Forms of MFI ownership

Ownership Type	Frequency	percent
Public	2	2.9
Private	68	97.1
Total	70	100.0

Source: Authors own from field questionnaire

The type of microfinance institution involved in the study was also found out, 84.3% of them were found to be commercial microfinance institutions representing 59 out of the total 70 MFIs. 11 of them were known to be NGO based microfinance institutions representing approximately 16% of the total response. The type of MFI gives a brief idea on the objective of the MFI since commercial based MFIs are more into financial service provision to individual based clients whiles that of NGO based are for group based clients. Table 4 shows the type of MFI employed in the research.

Table 4: Type of Microfinance Institution

Type of MFI	Frequency	Percent
Commercial	59	84.3
Ngo MFI	11	15.7
Total	70	100.0

Source: Authors own from field questionnaire

Figure 4 represents the type of services provided by the microfinance institutions involved in the study. From figure 2, 50 % which is 35 of the total 70 MFIs operate on providing loans and other financial services to both individual and group clients. 19 representing 27 % of the MFIs provide financial services to only individual based clients whiles 16 provides for only group based clients. This shows that, many of the microfinance institutions in the research area provides financial services to both individual and group clients with the later deemed as a good way to reduce the rate of default since members of the group serve as a form of collateral for the other members.

The experience of any institutions in one way or the other, affects the growth as well as the productivity of the institution. The study on the other hand tries to find out the views of managers of various microfinance institutions on factors which they deemed as drivers as well as obstacles to the growth of their microfinance institutions. It is therefore necessary to know the year of operation of the various microfinance institutions as it measures the experience of the MFI.

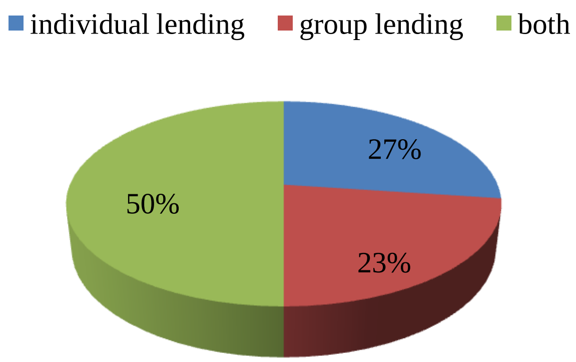

Figure 4: Types of microfinance lending services in Ghana
(Source: Source: Authors own from field questionnaires)

It can be infer from figure 5 that, most of the MFIs have been operating between years 1 to 5 representing 74.3% of the total MFIs. Also, 21.4% of the MFIs have been in operation between the periods of 6 to 10 years whiles 4.3% has operated for over 10 years now. This shows that, most of the microfinance institutions in the study area has long time experience in the provision of financial service facilities and hence, perception given on both drivers and obstacles could be deemed accurate views of the managers to the growth of the microfinance institutions.

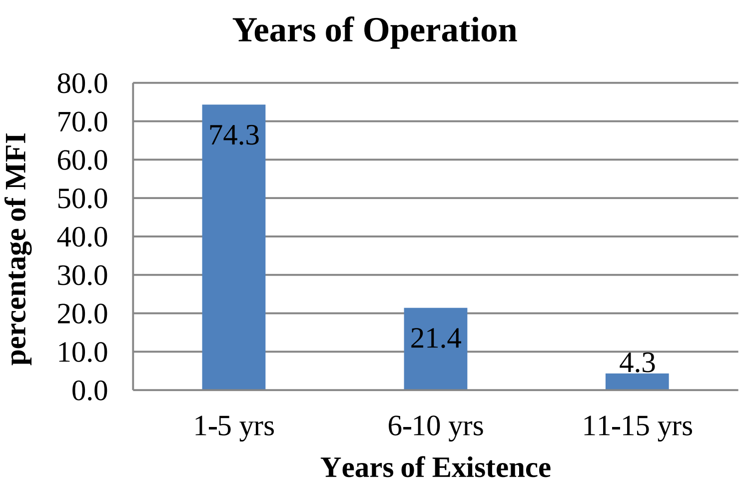

Figure 5: Years of Operation of Microfinance Institution
(Source: Authors own from field questionnaires)

4.2 Drivers of growth of Microfinance Institutions

This section describes the responds given by the respondents on factors that are considered as drivers of growth of microfinance institutions.

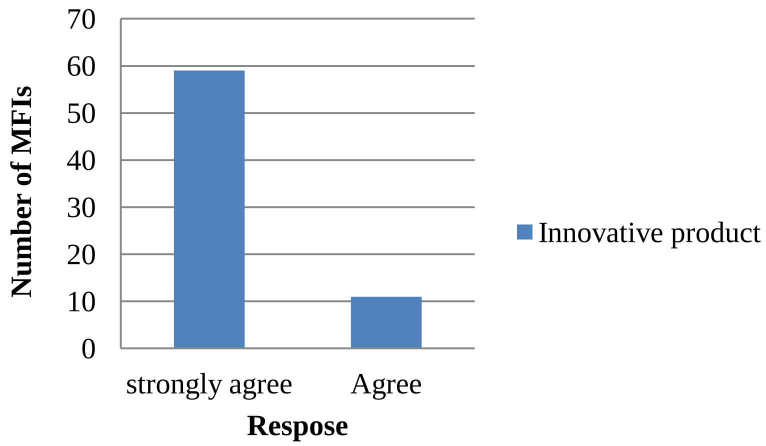

Figure 6: Introduction of Innovative products

(Source: Authors own from field questionnaires)

On a Likert scale of strongly agreed to strongly disagreed, 59 MFI managers representing 84% strongly agreed when asked on the question of the introduction of innovative product as a driver for growth of the microfinance. 15.7% on the other hand agreed to the fact that, introducing new innovative products can help the MFI to grow. None of the MFIs either disagreed or strongly disagreed to the question of innovative product.

Microfinance institutions through their operations such as the provision of loans to their clients incur some cost of operation. This cost must be recovered in order for the MFI to continue in its operations and hence achieving the main purpose of MFI establishment. However, most MFIs are known to be established not for profit making and therefore rely on donors or international finance sources for support in the event of financial insufficiency. The study therefore tried researched the receiving of international funds as a driver of growth of microfinance institutions. From the field survey, 74% and 26% of the MFIs strongly agreed and agreed respectively that, the receiving of international sources of fund can help in the growth of MFIs. This is to say that, many of the MFI managers believe that, support from donors forms an integral part of MFI financial sustainability which is necessary for growth of MFIs in the study area. Figure 7 shows the response on international sources of funds.

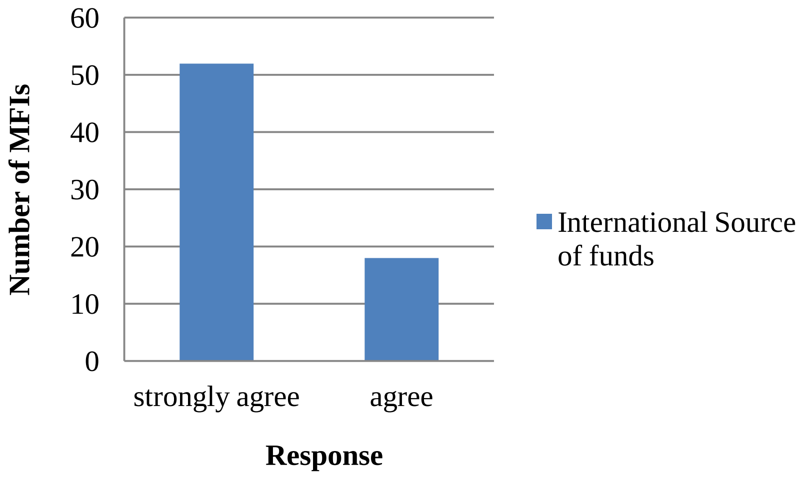

Figure 7: Receiving funds from international sources

(Source: Authors own from field questionnaires)

Microfinance institutions require a good cliental base for its growth. MFIs generate their revenues based on the interest charged on loans for their clients and therefore, the higher number of clients, the likelihood of generating more revenues and therefore increasing the outreach potential of the MFI. Clients are therefore an asset to every microfinance institution and hence the need to provide quality customer service through quality product and service provision. The study therefore researched if quality customer service provision can be deemed as a driver of growth of MFI. Response is shown in table 5.

Table 5: Provision of Quality Customer Service

Customer Service	Frequency	Percent
Strongly agree	55	78.6
Agree	15	21.4
Total	70	100.0

Source: Authors own from field questionnaires

Table 5 shows that 55 representing 78.6 percent of the total MFI strongly agrees that MFI are able to grow as a result of quality customer services provided to their customers this shows how customers are keen to MFIs therefore there is the need to handle them with care. Last not the least, the study further investigated if an increase in the total number of clients of an MFI can be viewed as a driver of growth.

The result from the respondents is presented in figure 8. From the result, 85.7% of the respondent agrees that MFI's grow as a result of increase in clients whiles 14.3% disagrees with the view that, growth in clients can lead to the growth of MFIs in the study area.

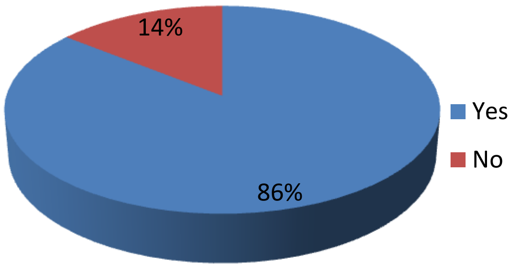

Figure 6: Response on increase cliental base

(Source: Authors own from field questionnaires)

4.3 Obstacles of growth of Microfinance Institutions.

The role of microfinance institutions as a mainstream tool for poverty reduction has been documented by many academics. For MFIs to be able to achieve this claim, their growth is of enormous importance. As we have already established the factors deemed as drivers of growth of MFIs above, the study investigated the factors which are deemed as obstacles of growth of microfinance institutions. These were categorised under three subheadings; Client related obstacles, System related obstacles and Stuff related obstacles.4.3.1 Client Related Obstacles

Client related factors of growth are those factors which are considered on the part of the clients as a hindrance to the growth of microfinance institutions. Default rate which describes the inability of a client to pay a loan granted was first investigated. Out of the 70 microfinance institutions investigated, 69 representing 98.6% of the MFIs strongly agreed that, default rate can affect the growth of microfinance institutions. This affirms the notion that, default rate is a major obstacle to the growth of microfinance institutions. Figure 7 shows the response on default rate by the MFIs.

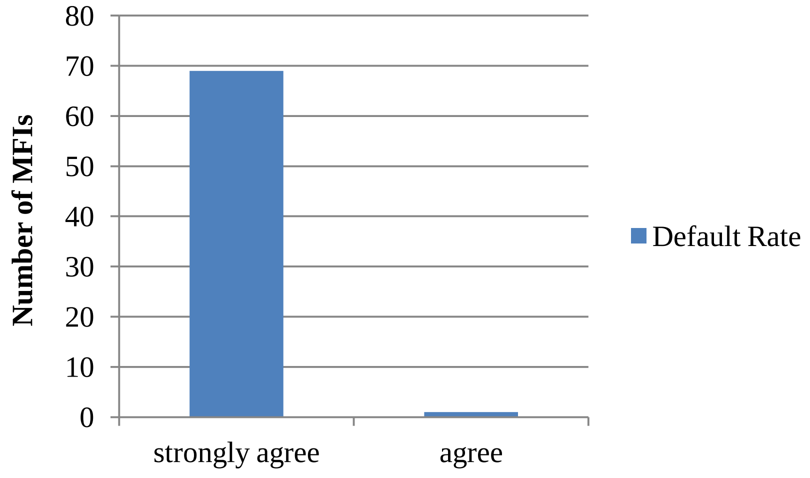

Figure 9: Response on default rate

(Source: Authors own from field questionnaires)

Another client related obstacle which the study investigated was the educational background of the clients. As shown in figure 9, 59 out of the total MFIs representing 84% interviewed agrees that the educational level of their clients affects their growth whiles 16% responded that it has less effect on the growth of their institution.

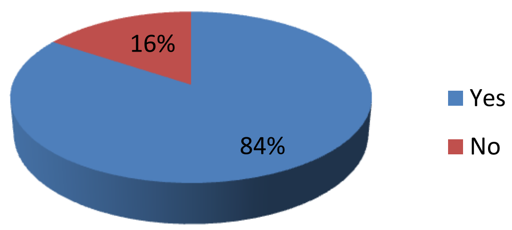

Figure 9: Response on educational level as an obstacle of growth

(Source: Authors own from field questionnaires)

4.3.1 System Related Obstacles

System related obstacles are those factors that are on the institutional level adjudged as a hindrance to the growth of MFIs. The study therefore investigated the views of MFIs on poor management as an institutional level obstacle to the development of microfinance institutions. Respondent of micro finance institutions attest that poor management skills affects the growth of micro finance institutions. 52 MFIs representing 74.3 percent strongly agrees and 25.7 percent agrees which is virtually the total respondents. Figure 10 below shows the response on poor management by the MFIs.

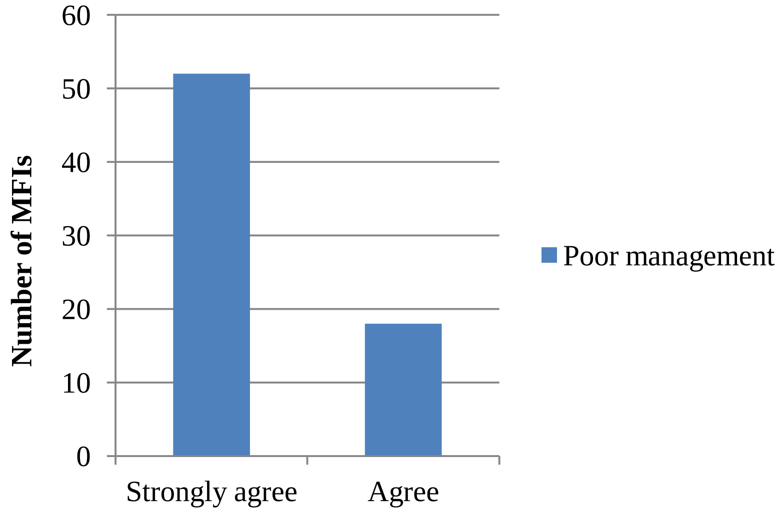

Figure 11: Response on Poor Management Skills of MFI

(Source: Authors own from field questionnaires)

Adding to the above institutional related obstacle, the unavailability of external audit unit was investigated to find out if it could be an obstacle to the growth of microfinance institutions in the study area as shown in table 6.

Table 6: Unavailability of Audit function unit

Unavailability of Audit function unit	Frequency	Percent
Strongly agree	12	17.1
Agree	48	68.6
Disagree	10	14.3
Total	70	100.0

Source: Authors own from field questionnaires

According to the research result obtained, 48 of the MFIs agreed to the notion that, the unavailability of an audit unit could affect the growth of MFIs. Also 12 of them strongly agreed to the above stated notion whiles 10 of the MFIs representing 14.3% disagreed that, the unavailability of an audit unit could hinder the growth of MFIs. Also, the effect of high operational cost as an obstacle to MFI growth was investigated. As shown in table 7, 66 MFI representing 94.3% responded yes to the fact that high operational cost affect the growth of these institutions whiles 4 representing 5.7% responded No to the question. It can be deduced on the average that majority if the MFIs in Ghana face the challenge of high operation cost. Information gathered from the managers of these institutions are that this challenge is as a result of high fixed and overhead cost, administrative and transaction cost which are generally small relative to the processing cost.

Table 7: Effects of High Operational Cost

High Operational Cost	Frequency	Percent
Yes	66	94.3
No	4	5.7
Total	70	100.0

Source: Authors own from field questionnaires

4.3.2 Staff Related Obstacles

Every organisation requires a good human resource base for proper functioning. As well microfinance institutions in their quest to offer financial services to the poor in the society who cannot have access to such services, require a good staff base. Staff related Obstacles are those factors on the stuff level that can affect the growth of MFIs. First and foremost, the study looked at skills and training of stuff as a potential obstacle to the growth of MFIs. Table 8 shows that respondent of MFIs strongly agree or agrees that lack of skilled labour and training of staffs can affect the growth of MFI and this represent 61.4 % and 38.6 % respectively.

Table 8: Lack of Skilled staff and Training

Lack of Skilled staff and Training	Frequency	Percent
Strongly agree	43	61.4
Agree	27	38.6
Total	70	100.0

Source: Authors own from field questionnaires

Motivation in the form of salary and bonuses, in no doubt has great impact on employee job satisfaction and performance. The study therefore investigated if lack of remuneration of staff can affect the growth of MFIs. Table 9 depicts that almost all the MFI institutions strongly agree and agrees representing 82.9 percent and 17.1 percent respectively that lack of remuneration of staffs impedes the growth of MFI. This is shown below.

Table 9: Lack of Remuneration of staffs

Lack of Remuneration	Frequency	Percent
Strongly agree	58	82.9
Agree	12	17.1
Total	70	100.0

Source: Authors own from field questionnaires

4.4 Empirical Analysis on Drivers and Obstacles of growth of MFIs in Ghana

To empirically analyse our data and answer the proposed hypothesis, we first calculated the average score on a five point Likert scale of the variables deemed as drivers and obstacles to the growth of microfinance institution in the study area.

Table 10: Likert Scale calculation of respondents

Drivers	Likert Scale Value	Rank
Innovative products	4.86	1.00
Int. Source of Fund	4.74	4.00
Quality customer care	4.79	3.00
Cliental Base	4.86	1.00
Obstacles		
Poor management	4.74	4
Default Rate	4.99	1
High Operational Cost	4.83	2
Inadequate Capital	4.8	3

Source: Authors own from field questionnaires

From table 10, we can deduce that, in terms of drivers of growth, most of the microfinance institutions viewed the introduction of motivative products as well as cliental base as a way in which the growth of microfinance institutions can be induced. The average Likert score obtained was 4.86 which is above average 5 point Likert scale and affirms the approval of the respondents. This was followed by quality customer care and international sources of funds with Likert score of 4.79 and 4.74 respectively.

On the part of obstacles of growth, default rate with a Likert score of 4.99 was viewed by the microfinance institution as the most important obstacle to the growth of MFIs in the study area. The value obtained was above average at 5 point Likert scale and suggest approval of the respondents. Poor management on the other hand was adjudged as the least obstacle to the growth of the various microfinance institutions employed in the study. Table 10 illustrates the Likert scale calculations

4.4.1. Empirical analysis of Drivers of growth

To answer our hypothesis (1) as stated in section 2.4 above, and test for significance among the variables deemed as drivers of obstacle, the t-test statistic tool was used.

Hypotheses (1) (Null and Alternative)
H_o: $a_1=0$ There is no significant relationship between variables deemed as drivers of growth and growth of MFIs in Ghana.
H_1: $a_1 \neq 0$ there is significant relationship between variables deemed as drivers of growth and growth of MFIs in Ghana.

Decision Rule:

If p calculated < p at 0.05 significance level, we reject the null hypothesis (H_o) and accept the alternative hypothesis, otherwise, we accept it.
Looking at table 12, the t-test shows no significance between the variables deemed as drivers of growth at significant level p (0.05). We therefore accept the null hypothesis and reject the alternative hypothesis and conclude that, there is no significant relationship between motivative products, quality customer care, and international sources of funds, cliental base and number of active borrowers as a measure of growth of MFIs in terms of their outreach potential.

Table 11: Empirical analysis of Drivers of growth of MFIs

Drivers of MFI growth	T-test	Sig.
Innovative Product	**0.221**	**0.64**
Quality Customer Care	**1.092**	**0.30**
Cliental Base	**0.045**	**0.83**
Int. Sources of Fund	**0.923**	**0.34**

Significant at p (0.05) **

Source: Authors own from field questionnaires

4.4.2 Empirical analysis of Obstacles of growth of MFIs

The study further analysed the variables deemed as obstacles to growth of microfinance institutions in the study area. This is represented in table 12. Hypotheses (2) (Null and Alternative)

H_o: $a_1=0$ There is no significant relationship between variables deemed as obstacles of growth and growth of MFIs in Ghana.

H_1: $a_1 \neq 0$ there is significant relationship between variables deemed as obstacles of growth and growth of MFIs in Ghana.

Decision Rule:

If p calculated < p at 0.05 significance level, we reject the null hypothesis (H_o) and accept the alternative hypothesis, otherwise, we accept it.

Using a significance level of p (0.05), results from the t-test in table 12 shows that, default rate significantly affects the number of active borrowers. We therefore reject the null hypothesis and accept the alternate hypothesis and conclude that, there is a significant relationship between default rate and number of active borrowers.

Contrary to this, there is no significant relationship between poor management, inadequate capital as well as high operational cost and the number of active borrowers. We therefore accept the null hypothesis and conclude that, poor management, inadequate capital and high operational cost does not influence the number of active borrowers of an MFI

Table 12: Empirical results of obstacles of growth of MFIs

Obstacles of MFI growth	T-test	Sig.
Default rate	72.044	**0.00******
Poor Management	1.37	**0.246**
Inadequate Capital	0.068	**0.795**
High Operational Cost	0.053	**0.819**

Significant at p (0.05) **

Source: Authors own from field questionnaires

5.0 DISCUSSION

Microfinance has been over the past years gained grounds as a potential tool for poverty reduction and a driver of accelerated growth and development of many developing countries. Ghana as a developing country has witness the rapid growth of microfinance institution in recent years. This study therefore sought to evaluate the perception of mangers of various microfinance institutions operating in the Greater Accra region of Ghana on factors that can be viewed as drivers of growth and those as obstacles of growth.

The introduction of innovative products and services by MFIs was seen as a contributing factor that leads to MFI growth. Introducing these products and service means that MFIs understand the market and their clients (Wrenn, 2005). When MFIs understand the market, they are able to determine the preferences of their clients and provide the right products and services that will lure more clients to do business with them and this help increase financial returns of MFI and in turn lead to the provision of more loans and other product to their clients.

Haruna Issahaku et al (2013) on a research made on the financial characteristics and innovation of MFIs in the Northern, Upper East and West Regions of Ghana also found out that, the MFI industry have experienced an innovation boom in lending products, partly contributed by donor institutions who consider microfinance as the next premise for poverty alleviation. For instance, there have been the introduction new products including combination of credit with savings products, business and health education, health or life insurance, and the inception of individual loan liability. This is aimed at reducing the susceptibility of clients while maintaining asset creation and hence improving their repayment rate and sustainability of the service. The product innovations are as a result of organizations striving to increase impact, extend outreach, and promote sustainability. As stated by Ernst and Young (2014) on the challenges of MFI, it was discovered that the MFIs that will differentiate themselves from the competition and achieve the best combination of social and financial returns are those that are innovative, adaptable and agile.

In contrast to this, some MFIs are not able to introduce such products and services such as provision of ATM cards, Research and Development expenditure, internet banking due to Government policies and legislations (Dary et al, 2013).

Looking at the Likert scale values, the introduction of motivation products was ranked 1on the same level as that for cliental base which is the highest among the other variables considered by the managers as a driver of growth. However, from the t test empirical analysis, the introduction of motivative products was found to have no significance on the growth of MFIs in Ghana. This means that, though most of the managers agreed to the fact that, an introduction of motivative product could enhance the growth of MFIs, it's not significant. This result is however in line with Abdelrahim (2014) who worked on challenges of MFIs in Jordan. In as much as the provision of motivative products could attract more clients and therefore widening the cliental base of MFIs, this study could not prove its significance on growth of Microfinance Institutions in Ghana. On the same level of Likert scale value, most of the managers of the MFIs agreed to the fact that, having an increased cliental base can be deemed as a driver of growth. An increase in cliental base may enhance the growth of the MFI's through increased returns on loans granted clients. Increase returns of MFI helps MFI to increase the amount of loans given to client. An increase in return, leads to opening of more branches which in turn leads to more clients. MFI will then grow through increased outreach and more on-lending interest.

Aveh et al (2013) stated in their research that according to Zeller and Meyer (2002), when the microfinance movement started, the focus was on improving the outreach of microfinance institutions to the poor that is on serving more of the poor. Expectations are that if the MFI's acquire more clients they may be describe as more sustainable since they will take more loans which will translate into more on-lending interest to be earned by the MFI. The t-test however showed that, there is no significance existing between the growth of an MFI and the number of clients of the MFI. Hence, though it was viewed by most of the managers, the growth of an MFI is not dependent on the number of clients of the MFI. This results is however is not in line with Aveh et al (2014) working on factors that contributes to MFIs success in Ghana who found out that the number of clients of MFIs contribute to the success of the MFI.

The growth and development of various microfinance institutions in Ghana and most parts of the world has been mostly donor dependent. Amidst the debate of how the receiving of donor support can help on the sustainability of MFIs in the world with particular reference to those in Ghana, MFIs in the study area agreed to the fact that, receiving international funds from foreign donors can help in the growth and development of MFIs in Ghana. Some MFIs especially NGO MFIs depend on donor subsidies as their primary source of capital. Subsidies enable MFIs to cover their operational expenses and also are able to offer loans to the low income client which is their main objective. Dary et al (2013) in his research mentioned that MFI that have access to donor funding are able to undertake micro insurance. MFIs that on the other hand depend on internal sources of funds are not able to offer such service. Volschenk (2008) found out that MFIs that lack capital to lend to clients could lead to loan applications that are processed on a queuing basis, favouritism in loan allocations, fraud and inability to expand microfinance services and products. This also leads to less research for clients' information, education, skills and incentives to employees; the result is poor quality of loan books, low morale among employees.

Dary et al (2013) stated that according to Lagerwood (2007) that although donor funds enable MFIs to provide cheaper services to their clients, such funding is deemed not sustainable. Mulunga (2010) also discovered in his research that a few microfinance institutions that have attained self-financial sustainability still heavily depend on donor subsidies. Continuous donor subsidy enables the MFI to cover the operational expenses but it could lead to a state of dependency and inefficiency. The same study sited that a number of donor funded MFIs have closed down as a result of donor withdrawal and an example is the programme Liskameni in Austria in 1994. Results from the study showed that, the receiving of international funds does not significantly affects the growth of MFIs in Ghana and therefore though it is deemed as a potential driver of MFI growth, MFI growth in Ghana is not dependent on international funds and as well though donor funds can be used as a means of recovering operational cost as noted by Lagerwood (2007), it could also lead to in sustainability of MFIs (Mulunga, 2010) which could affect the growth of MFIs.

Customers are seen as assets of institutions therefore it is necessary to provide good services to them as this will lead to the retentions of the customers and referrals of other customers to the institutions. According to Mulunga (2010) MFIs provides quality customer services to their clients when MFIs have adequate information about their clients which helps in motivating them to continuously transact business with them. Ayeh (2011) cited that, market analysis of the targeted clientele in terms of demographics helps to determine the needs of each segment of potential MFIs beneficiaries, provides the needed products and services knowing the preferences of their market. Provision of products or services that are not needed by the clients will lead to a mismatch between the demand (client) and supply (MFIs), rendering the MFIs to be inefficient. The provision of quality customer service was deemed as a driver of growth for MFIs in the study area with a rank of 2 and a five (5) point Likert scale score of 4.79 which is above the average Likert Scale. Contrary to this, the research found no significance of the provision of quality customer care as a driver of growth. This is to mean that, despite the potential of providing quality customer care could attract more customers to do business with a particular MFI; the growth of MFIs is not dependent on providing quality customer service but other factors which was not captured in the study.

High default is a problem faced by most microfinance institutions and as noted by Korankye (2014), MFIs' largest assets are loans and the largest source of risk resides in their loan portfolio. Therefore, maintaining better loan portfolio quality will mostly depend on client repayment performance. This is a limitation particularly because MFIs yield low returns on their services and this results in their inability to give out loans whiles offering other financial services to their clients. Moreover, this will lead to a lower outreach to client and this can impede the growth of MFIs. Adding to this, Pollio and Obuobie (2010) opines that, an increase in client number results in the probability of increase default rate, whether the client is a first time borrower or not or whether the proceeds are used to purchase fixed assets and the frequency of monitoring.

With reference to the study results, default rate was ranked first as a potential obstacle to the growth of MFIs in Ghana. Also, a significance level was obtained which suggests that, the growth of MFIs is dependent on the rate of default of the MFI. The ability of an MFI to successfully collect all loans given out is an indication of growth success of the MFI. As noted by Korankye (2014), many factors such as improper appraisal and wilful negligence by credit officers lead to higher default rates. The author working on loan default rate and effect on profitability of MFIs in Accra and Kumasi, showed that, the higher the default rate, the lower the profitability of the MFI which in turn relates to the sustainability of the MFI and hence the growth. Also, Kwakwa, (2009) found that, with a decline in real gross domestic product, corporate loan default increases and as such, the reimbursement ability of borrowers is directly affected by the exchange rate depreciation. More so, Balogun and Alimi (1988) also identified that, include high interest rate, poor supervision, loan shortages, delay in time of loan delivery, age of farmers, and undue government intervention with the operations of government sponsored credit programs are the major cause of loan default.

Moreover, Assefa (2010) stated that, increase in MFI competition and its associated rate of deterioration in lending standards which hinders the industry to grap the largest financial share of the market is a growing concern for many experts in the industry and has expressed their frustration over the increasing rate of defaults and over-indebtedness. Amoah (2012) also suggested that, constraints faced by MFIs in their operations are due to individual MFIs who consider success and other financial incentives on the growth in clients and low default rates. The author further stated that, MFIs can reduce default if they are able to identify and categories their clients on their ability to repay their loans. MFIs ability to assess the credit characteristics of their clients will be able to identify those that are weak and strong in terms of loan repayment (Amoah, 2012).

As can be deduced above, default rate can be viewed as a probable hindrance to MFI growth and as such one cause of default rate is the wilful negligence and improper appraisal by credit officers which translates into poor management skills. Poor management though ranked as the fourth obstacle to MFI growth based on the study results, could be said as a contributing factor to MFI growth. According to Asiama (2007) in his study on microfinance institutions in Ghana, MFIs in Ghana has operated without precise goals policy and guidelines since the government involvement in 1950s and this accounts for slow growth. The study also stated that poor management skills among MFIs in Ghana is as a result of lack of precision in identifying areas of operation, overlaps of role and responsibilities of stakeholders and this is as a result of no clearly defined institutional and organizational hierarchy and reporting relationships. Amoah (2004) mentioned that one factor that contributes to poor management of MFI is inadequate information gathering about their clients. This is because there is no common benchmark for well-defined methodology for data gathering, reporting system and information sharing of MFIs. This is in support of the author's findings where 55 MFIs representing 78.6 percent agrees that inadequate information about client impedes the growth of MFIs.

Moreover, Aveh (2013) in the study of the success of micro finance institutions, the Ghanaian experience cited that improper records keeping of MFI can affect the growth of the institutions and this is as a result of poor management by the leaders. Record keeping enables MFI to monitor their clients effectively as this can impact on the loan defaulting, enhances accountability, transparency and effect administration. However, though poor management can be said to be a growth obstacle to MFIs in Ghana, empirical analysis from the study suggests otherwise as no significance level was obtained. This correlates with the results of Abdelrahim (2014) who also found that; poor management is an insignificant challenge for MFIs in Jordan and therefore could be neglected by policy makers. This shows that, though the perception of managers of MFIs in Ghana on poor management could be deemed as an obstacle, it does not affect the growth of MFIs based on the study results.

The basic service of most microfinance institutions is the provision of microcredit which forms the largest part of the cost of operation of MFIs. From the study results, high operational cost was ranked second with a five (5) point Likert scale score of 4.83 which is above average Likert scale which suggests that most of the MFI considers high operational cost as an obstacle to growth. Talking from the financial or the business point of view, institutions which incurs a high cost of operation has lower returns in terms of revenue. The inability of an MFI to recover its cost of operation will affects the profitability which in turn affects the growth of the MFI. Information gathered from the managers of these institutions are that this challenge is as a result of high fixed and overhead cost, administrative and transaction cost which are generally small relative to the processing cost. This causes the issue of small loan size to clients and in turn leads to low financial returns for the institution and further leads to low outreach of clients.

In a research done by Mulunga (2012) on the challenges facing MFIs in Namibia mentioned that fixed and overhead cost, transaction cost relative to processing cost affects MfIs in Namibia. It further stated that lack of formal track records of the microfinance clientele most of whom are first time users of financial institutions also leads to high cost of operational. This occurs because limited information about the clients makes it difficult to assess the credit worthiness of the clients. Lack of information about the clients might lead to adverse selection and moral hazard leading to loan default.

6.0 CONCLUSIONS AND RECOMMENDATIONS

Microfinance encompasses the provision of microloans, savings facilities and other financial services like money transfers, pension payments and insurance designed for the poor who live on low income or are otherwise excluded from the products of the formal banks (Rogaly et al, 2009). Microfinance institutions in Ghana are identified as the main financial providers to the poor who cannot have avenue to financial services from formal financial institutions and as such contributing enormously to poverty reduction as well as reduction in income inequality in Ghana. The industry has been over the past years gained grounds as a potential tool for poverty reduction and a driver of accelerated growth of many developing countries. The evolution of the microfinance sector in Ghana has evolved through various phases contributing to the success of the MFI industry. The study therefore intended to examine the factors that influence the growth of microfinance institutions in Ghana.

From the study, a majority of the microfinance institutions were found to be private owned entities whiles about 3% operating under the public sector. Also, commercial microfinance institutions were the dominant type of MFIs operating in the Greater Accra region of Ghana with a percentage of 16 operating as NGOs. On the part of operations, most of the MFIs were identified to be in existence for less than five years. About 21 microfinance institutions have been operating between 6 to 10 years whiles only 2 have been working for more than 11 years. Years of operation are important for the success of MFIs as it indicates the experience and trustworthiness of the MFIs by their clients. Microfinance as indicated above is an essential tool for poverty eradication and development of developing countries and hence the period of existence of MFIs in offering of financial services to the poor could be deemed as an important aspect of MFI operations. Group as well as individual lending types were identified as the means of loan provision to clients. Group lending was however preferred to individual lending by most of the MFIs as individuals in group lending serves as a collateral for other members of the group. This also enhances the reduction in high default rate which is an obstacle to the sustainability and growth of many microfinance institutions.

The main aim of the study as stated above is to analyse the factors that contribute to the growth of microfinance institutions in Ghana. The study firstly investigated the factors that could serve as drivers of growth of MFIs in Ghana. The results showed that, the introduction of innovative products, access to international sources of funds, provision of quality customer care as well as increase in client base were identified as the drivers of growth of MFIs in

Ghana. Most managers interviewed indicated that, the introduction of innovative products and an increase in cliental base has the potential to harness the growth of microfinance institutions in Ghana. However, empirical analysis from the study showed that, there is no significant impact of the factors deemed as drivers of growth to the growth of MFIs in Ghana. Significance level of 0.64, 0.30, 0.83 and 0.34 for introduction of innovative products, provision of quality customer, increase in cliental base and access to international finance source respectively was obtained which shows that, an increase in the cliental base or introduction of innovative products has no impact on the growth of MFIs in Ghana.

The study further examined factors that could contribute as obstacles to the growth of MFIs in Ghana. From the study results, high default rate, poor management, inadequate capital and high cost of operation were identified as factors that could be deemed as obstacles to the growth of MFIs in Ghana. High rate of default was identified as the highest contributor the growth of MFIs in Ghana. High default is a problem faced by most microfinance institutions. The study revealed a high default rate on loan repayment. This is a limitation particularly because MFIs yield low returns on their services and this results in their inability to give out loans and provide other services to their clients. Moreover, this will lead to a lower outreach to client and this can impede the growth of MFIs. High default rate was followed by high cost of operation, inadequate capital and poor management.

Also, 59 out of the total MFIs strongly agree that educational background of their clients affects the drivers of MFIs whiles 11 disagrees to this. Lower or no education of clients of MFIs leads to a high default rate which affects growth. Poor management skills which is as a result of improper records keeping and unavailability of audit function units is an obstacle to the drivers of growth of MFIs. In the study, 52 managers of MFIS strongly agree whiles 18 agree that poor management skill hinders growth. High operational cost however was identified as one of the obstacles with 66 of the microfinance institutions responding yes and 4 responding no to the questions. Also, the study found out that lack of skilled staff and training is an institutions obstacle to growth where 47 of the MFIs strongly agreed and 27 agreed whiles 58 MFIs strongly agreed and 12 agrees that lack of staff remuneration also hinders the growth. Empirical results obtained from the study showed that, default rate had a significant impact on the growth of MFIs in Ghana. However, high operational cost, inadequate capital and poor management with significance value of 0.819, 0.795 and 0.246 respectively were found not to have a significant impact on the growth of MFIs in Ghana.

To conclude, the study has shown that, introduction of innovative products, provision of quality customer care, access to international financial source and increase in cliental base of MFIs are deemed as drivers of growth of MFIs in Ghana. High default rate, poor management, inadequate capital as well as high operational cost were identified as obstacles of growth of microfinance institutions in Ghana. We therefore conclude that, the microfinance industry in Ghana is faced with factors that could be deemed as drivers and obstacles of growth.

6.1 Recommendations

1. The Author recommends that Government must stabilise the macroeconomic environment to levels that are conducive to the operations of MFIs. The Bank of Ghana should also put in place the requisite regulatory and legal framework to fortify MFIs and to create an enabling environment for MFIs to be able to adopt modern technology.
2. Microfinance institutions need to identify alternative ways of funding to avoid donor over reliance, especially in view of drying up of donor funds. This will help in the sustainability of MFIs
3. The microfinance institutions should train their managers and staffs on proper book keeping(financial report) in order to have an accurate and good financial tracks to assist them attract and secure international donors funds and also to help them know whether they had made profit or loss to make their microfinance businesses more sustainable.
4. MFIs programs should be redesign to absorb and cover most of the needs of the microfinance institutions towards their developmental programs. this will encourage members to develop Ghana social economic in the country, whiles government on the other hand should concentrate on the building of infrastructure and the provision of policy directives to support the smooth operation of the microfinance industry.
5. MFIs can build the capacity of their personnel which help them exercise a sound management practices and design.
6. MFIs should provide financial incentives to individual credit officers to reduce the high rate of default.

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