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THE CHALLENGES OF GHANA MICROFINANCE INSTITUTIONS IN RELATION TO INTERNATIONAL FINANCIAL SOURCES SUPPORT

MASTERS THESIS

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Declaration of Integrity

I confirm that work in this thesis titled “The Challenges of Ghana Microfinance institutions in relation to International financial source support” 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:

Name: Mavis Ohene Darko

Place and Date: Prague, 2016

Acknowledgement

Most blessed, most glorious, the ancient of days, almighty, victorious, thy great name we bring. My profound thanks go to the creator and the sustainer of the entire universe. Father, May your Holy name be praised in the highest.

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ABSTRACT

The MFIs over the last two decades has seen some contributions from donor organizations, agencies and investors in and outside the country. Nevertheless, Microfinance has increased hastily by 20-30 percent annually. MFIs currently serve over 15 % of the country’s total population with their financial assistant in comparism to 10 % for the commercial microfinance sector. The institution today continues to grow and hinges on donor support and interventions but there are still remains huge gaps as evidenced by lack of alternative and competitively priced on-lending funds for the microfinance in Ghana.

To achieve the aim of the thesis, three hypotheses were postulated. The research took on to examine the challenges facing microfinance sector in Ghana in terms of financial sources support, secondly, to examine the impacts international financial sources can help develop the microfinance sector in Ghana and also to identify the type of international financial sources support in Ghana. Questionnaires were distributed among 80 MFIs for data collection. Data collected was analyzed using Statistical Package for Social Sciences (SPSS v 20) employing the use of Chi-Square statistical tool to answer the proposed hypothesis of the study.

Results obtained showed that, the years of operation, ability to provide a guarantor and asset base, good financial report as well as the ability to pay clients the amount request were the challenges faced by MFIs in Ghana in terms of accessing international financial support. Also, international financial sources such as Accion international, Ada and Symbiotics were identified as the primary source of international financial support. More so, the study also revealed that, accessing international financial support has helped most of the MFIs to increase their outreach potential and thereby achieving their aim of poverty reduction in the country. Empirically, the study proved that, the years of operation, time taken for loan to be granted and fulfillment of requirement of the international financial institutions significantly affects the amount of loan requested. Based on the results obtained, the study recommends the creation of credit schemes to enhance the access of credit by MFIs in Ghana.

Keywords: Microfinance, Microfinance Institutions, International Financial Institutions, Challenges, Sustainable, Ghana.

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LIST OF ABBREVIATIONS

ADB- Agricultural Development Bank

BOG- Bank of Ghana

FCA-Financial Conduct Authority

FINMA-Financial Market

FINSPP-Financial sector strategic plan

GDP- Gross Domestic Product

GHAMFIN- Ghana microfinance institutions network

GPRS-Growth and poverty reduction strategy

GSS-Ghana statistical service

IFI- International financial institutions

MASLOC- Microfinance and small loans centre

MFI- Microfinance institutions

MOFEP- Ministry of finance and economic planning

MSME-Micro small and medium enterprise

NBFI- Non bank financial institutions

NBFIs-Non- Bank Financial Institutions

NGO-Non Governmental Organisation

OSI-Open Society Institute

RCB- Rural and Community Bank

REP-Rural Enterprise Project

S&L- Savings and Loans

SPSS-Statistical package for social science

SWOT-Strength, Weakness Opportunity, Threat

UK- United Kingdom

UNCDF-United Nation Capital Development Fund

UNICEF- United Nations International Children's Fund

USA- United State of America

USAID-United State Agency for International Develop

1.0 INTRODUCTION AND LITERATURE REVIEW

1.1Introduction

Even though Ghana is now considered to be a lower middle income economy, a significant proportion of the economy is dominated by the private informal sector, accounting for close to 90 % of the domestic economy. This sector touches on nooks and cronies of each facet of the Ghanaian society. Hence, the conscious efforts by policy makers to engage the sector in a more serious formalized manner. However, the financial support to enable them maximizes their potentials and hence contributes immensely to the socio-economic development of Ghana, has been very challenging and inadequate.

The 2007 Ghana Government Budget Statement in paragraph 1273, fewer than 10 % of the Ghanaian bankable population have formal accounts and hence have access to the financial sector leaving 90 % outside the formal banking sector. This makes it difficult for them to avenue credit to support their economic activities. This may be due to the stringent requirements that the formal financial institutions put in place as part of their credit assessment to minimize their lending default risks. The overall effect is that efficient and effective access to credit to support entrepreneurship businesses in the informal sector is a major problem retarding the economic development agenda in Ghana.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 current state of the financial system development in Ghana has partly succeeded in addressing the financial needs of the lower-income population and micro, small and medium social enterprise (MSMEs).specialised microfinance institutions (MFIs) have played an important role in increasing financial inclusions in Ghana over the last decade and the Bank of Ghana issued regulations in 2011 requiring some to register and others become licensed according to the types of financial services provided (GHAMFIN, 2012).

They deal with these issues of lack of access by financial institutions to the commercial micro finance gave birth to the view that micro financing provides the best alternative means of getting capital available to the informal sector to help them realize their economic potentials. This study therefore looks at the challenges of micro financial institutions in relating to financial assistance from international sources and hence to establish the correlation between the growth of microfinance support and the development in Ghana relations to international assistance. The micro finance sector in Ghana has witness growth in the amount of registered and non-registered microfinance. The Bank of Ghana (BOG), in October 2012, had registered a total of one hundred and sixty one (161) micro finance and granted them provisional licensees (Bank of Ghana, 2012). Avenue to credit from financial institutions is reckoned to be one of the major hindrances of the sectors in Ghana (Aryeetey, E. 2008).

Funding the operations of microfinance all over the world remains one of the very important factors in ensuring that the micro finance has the needed resources to effectively bridge the financial gap existing between the formal and the informal sector of any economy. According to Latifee (2009), although the amount of funds circulating in the micro finance institutions has increased from a few million US dollars in the 1979s to billions in recent times, it is still far less than what is requires to meet the current demand the institution is receiving, many microfinance today in Ghana are struggling to raise or source for adequate capital to support the high demand for loans and other donors funds to enable them to continuously extend their services to the poor and the low-income earners.

The microfinance industry over the last two decades has seen some contributions from donor organizations, agencies and investors in and outside the country. Nevertheless, Micro finance has increased hastily by 20-30 percent annually. MFIs currently serve 15 % of the country's total population with their financial assistant in comparism to 10 % for the commercial micro finance sector. The institution today continues to grow and hinges on donor support and interventions but there are still remains huge gaps as evidenced by lack of alternative and competitively priced on-lending funds for the microfinance in Ghana. This coupled with Bank of Ghana's recent minimum capital upwards adjustment across the sector has called for alternative funding. A cursory observation of the sector indicators shows that most of institutions are not well positioned to attract cheaper sources of funds.

The MFIs have witnessed some level of liquidity challenges and reduction in the growth of loan portfolio. Most donors do not have a focal point or central unit for Ghana micro finance, of the bilateral agencies, the United States Agency for international development (USAID) of the United Kingdom are the only ones with central offices for microfinance in Ghana, although several are creating similar focal units, while almost all of the bilateral donors work globally. Several donors have emphasis on Africa such as the Scandinavian donors (Denmark, Finland, and Sweden).

Many agencies such as the Accion international, Germany fund via Ghana Microfinance institution network (GHAMFIN) when they are the initial recipients of funds from donors. Many donors' agencies are shaping their Microfinance agencies and procedures and process is a dynamic one.

The Pie Chart below illustrates the various sources of donor's funds to the commercial micro finance institutions in Ghana.

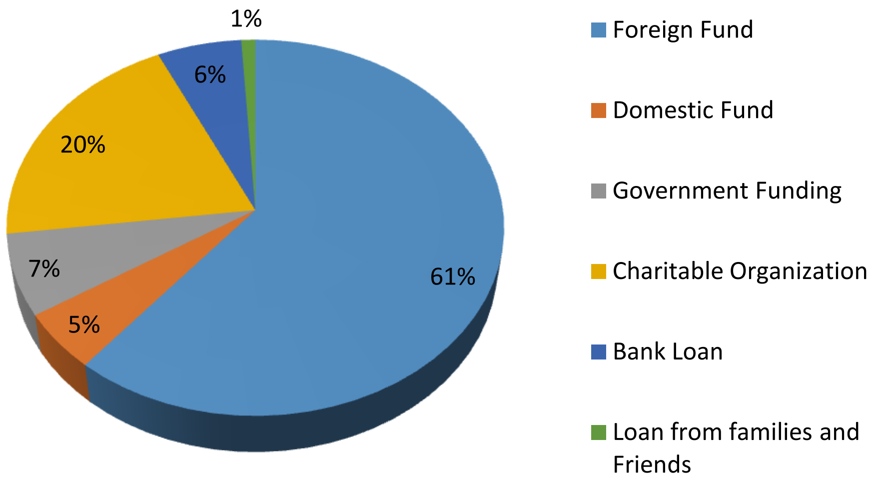

Figure 1: Sources of Donor funds

(Source: Bank of Ghana, 2013)

1.2 Literature Review

The 2000 Housing and Population Census stated that 80 % of the working populations are with the reserved informal sector. This group is symbolized by lack of avenues to credit, which hinders the growth and development the private segment and the country as a whole (Ghana Statistical Service, 2011). Avenues to financial assistance is overbearing for the growth of the informal segment. Efficient financial service sector is also a good mechanism to manage the economic as development use it to wipe up surplus through investments that can be made available as asset capital for country improvement.

This chapter is a review of relevant theories and literature on the challenges on microfinance institutions in relations to international financial sources in Ghana. The literature review covers the macroeconomics overview in Ghana, Financial system in Ghana, overview of microfinance in Ghana, definitions of microfinance and concept of microfinance and, different types of microfinance in Ghana, major role and importance of microfinance sector to Ghana, the challenges faced by the microfinance institutions in Ghana, Overview of international financial support, the major role played by the international financial institutions types of sources of international financial supports to Ghana. The impact of international financial support on microfinance institutions in Ghana. Furthermore a review of other related articles by different authors will be reviewed base on this research.

1.3 Macroeconomic overview of Ghana

Macroeconomic factors are statistics that indicate the current state of the economy of a state which externally have an influence on the financial strategies of business. Like any other sector of the country, Ghana's macro economy has seen general improvement since the 1990s and also influenced by the various macroeconomic displays such as: Interest rates, exchange rates, inflation, Gross Domestic Products (GDP) and the money resource.

1.2.1 Gross Domestic Product (GDP)

According to Lemma and Negal (2013), the economic development of countries mirror the wealth disparity between them and hence access to finance. Frank and Goyal (2009) are of the opinion that as the economy of a country grows and expands the assets of corporations also increases. This increases the borrowing capacity of business as they have more collateral. Mokhova and Zinecker (2012) affirm that a boost in the economy and consequently a growth in the GDP of a country will result in a growth in the productivity of businesses. This will result in companies having more internally generated funds to reinvest in their businesses for expansion. (Mokhova and Zinecker, 2012). The figure below illustrates the GDP growth of Ghana from 2001 to 2013.

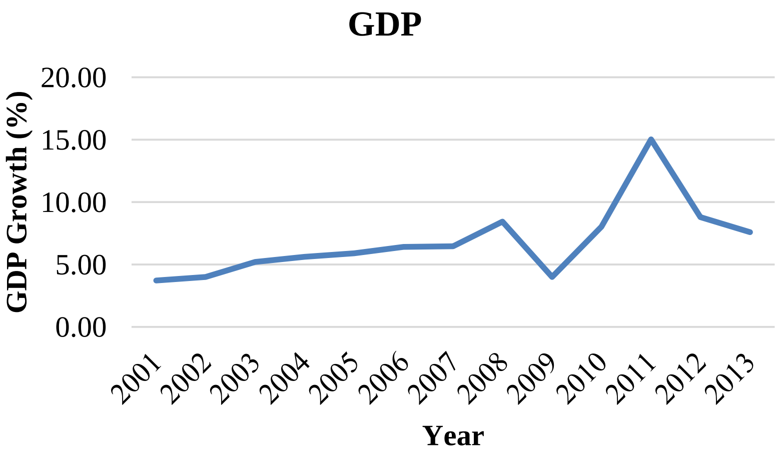

Figure 2: GDP growth of Ghana (2001-2013)

(Source: Authors own from World Bank data, 2016)

1.2.2 Inflation Rate

Inflation is described as the sustained increment of the overall amount of things and services in a country over duration of time. As inflation increases the buying power per unit of money is reduced. According to Gungoraydinoglu and Öztekin (2011) high inflations results in companies inability to repay their debts hence debt financing providers become unwilling to provide finance. The figure below illustrates the inflation rate of Ghana from 2001 to 2013.

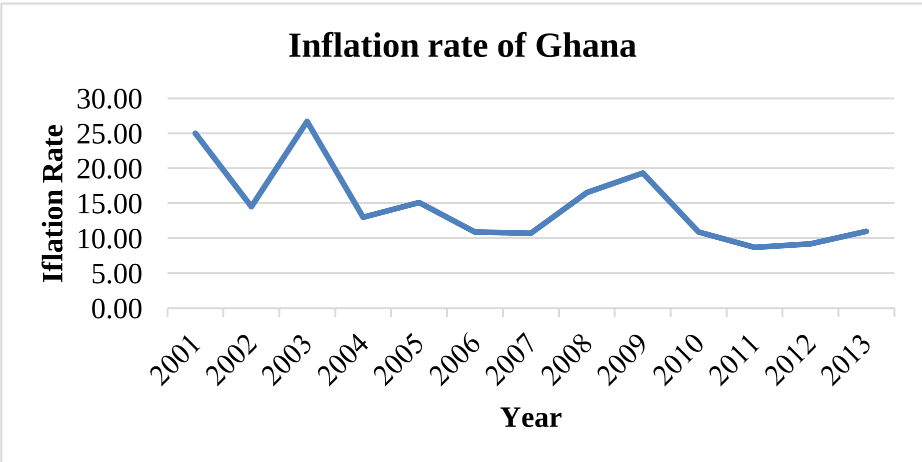

Figure 3: Inflation rate of Ghana (2001-2013)

Source: Authors own from World Bank data, 2016

1.2.3 Interest Rate

Interest rate is the amount at which interest is remunerated by debtors for the use of money acquired from creditors. Changes in interest rates greatly influence the financing levels of businesses. According to Deesomsak (2009) businesses are more probably to use deficit when the cost of lending is squat on the other hand, business change from equity to liability financing when the interest rates are increasing (Deesomsak, 2009).The figure below illustrates the inflation rate of Ghana from 2001 to 2013.

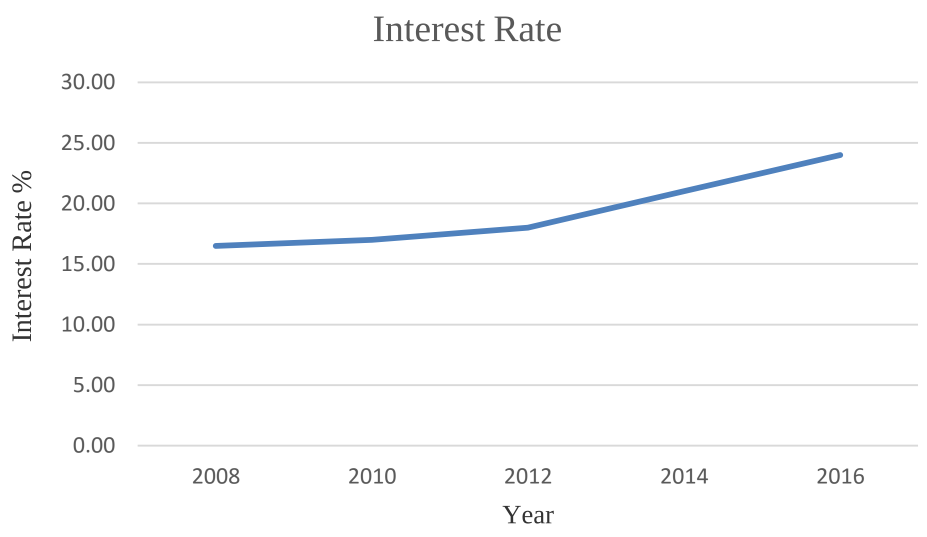

Figure 4: Interest rate of Ghana (2008-2016)

(Source: Authors own from World Bank data, 2016)

1.3 Definition and concept of microfinance

Microfinance means different things to different people and this is demonstrated by the way various authors have defined it. For instance, according to Churchill (2011), microfinance is a small scale financial service for both credits and deposits that is provided to publics who farmhouse or go fishing, providing services, work for remunerations or commission, gain income from renting out small amounts of lands, vehicle, animal, machinery or tools to other individuals and local individuals in both rural and city areas of developing countries. (Churchill, 2011).Moreover, Rogaly et al (2009) confirms that microfinance is beyond credit and savings by defining the term to encompass the provision of small credits, savings services with no or very low minimum deposit and other financial services like insurance and money transfer or bill payment designed for poor people who live on squat earnings or are, otherwise, excluded from the products of commercial banks (Rogaly et al, 2009).

Otero (2007) supported this view by defining MFIs as the attempt to advance access to small amount of money and small credits for deprived families neglected by banks. Microfinance therefore involves the establishment of financial services such as credits, savings and protection to poor living in both cities and rural surroundings who are deprived of such services from the formal financial segments (Otero, 2007). Furthermore, Ledgerwood (2008) defines microfinance as the provision of financial services to the low-income clients, including the self-employed. The provision of microfinance services such as savings, small loans, and micro insurance has thus evolved as a vital alternative for poor households to improve in consumption, start their own business, cushion income shocks, and improve living conditions (Ledgerwood, 2008).

The habit of savings and the acquisition of loans in smaller amounts have also being part of the average Ghanaian. The phenomenon of microfinance is therefore not new and as such, Robert and Nelson (2010) notes that, the first Credit Union established in Africa was founded in 1955 in Northern Ghana by the Canadian Catholic Missionaries (Robert and Nelson, 2010). The traditional money lending technique normally referred to as Susu which forms the basic microfinance methodology currently implemented in Ghana is known to have originated from Nigeria and spread within the country in the early 1990s. The microfinance industry in Ghana has witnessed a rapid growth over the past years but the report from the Bank of Ghana working paper (2009) found out that, the financial of Ghana is amongst the lowest in the West African Sub region. The demand for capital for business activities therefore out weights the demand.

However, in general terms, microfinance institution caters to the poor and underserved segments of the population by providing “small-scale financial services farmers or herd, small operators of micro enterprises, local groups and other individuals in developing economies, both in urban and rural areas (World Bank and Open Society Institute, 2009). According to Helms (2007) the term “microfinance institution” rather than “microcredit” was used to represent varieties of financial provision to the less privileged, including savings, credit and insurance. To get to a larger number of poor clients, microfinance institutions and their networks increasingly began to practice an approach of commercialization, thus transforming themselves into for-profit corporations that could earn more capital and become stable in the financial system. Creating and growing of strong institutions was emphasized as in contrast to conveying credit to particular groups being a central facet of this history (Helms, 2007).

The statement of UN Secretary General demonstrate the importance of microfinance, as he argued that ‘‘Sustainable avenue to microfinance helps improve poverty by creating jobs which will yield income and enable families to receive good health care, better education, allowing citizens to make good preferences that serve their needs’’(Dr. Kofi Annan, 2012). Institutional microfinance is said to provide services to both formal and semiformal institutions which is a major business of microfinance institutions (Agricultural Development Bank, 2014).

Microfinance is unique as a development tool because of its prospective of being self-sustaining. Successful microfinance institutions have proven that providing financial services to the deprived can be an effective means of poverty reduction and be a profitable business. Dozens of institutions have proven that financial services to deprived people can cover up their costs through tolerable interest rate, persistent focus on insistent and efficient repayment process. A large portion of today's microfinance services are being delivered by institutions that are commercial, even after adjusting for subsidies that they may have received (Miller, 2012).

1.3.1 Importance and benefits of microfinance

Balchin suggested that Microfinance loans are aimed at empowering the impoverished, mostly women, to start their own businesses and to grow their money so they can achieve long- term financial Independent. That is why this concept carries many advantages over typical philanthropic endeavors. It is not a hand out-as mentioned earlier, microfinance is not about just giving out money to the poor. On the contrary these are small loans paid back with interest and many people are skeptical issuing microloans to the deprived. Microfinance allows the poor to receive financial support to carry out economic activities to improve their livelihood, through enhanced income earnings (Balchin, 2010).

Traditionally, the poor have been unable to receive such support from the traditional formal financial institutions because they do not have anything substantial in the form of assets to offer as collateral. They therefore get trapped in a vicious cycle of poverty, living and working in poor, rural areas. Microfinance allows the poor to get loans they need to save, invest, and create a sustainable lifestyle of financial independence and grow. These loans are used productively by the poor to create their own business, grow their asset, and get out of poverty once and for all (Nyamekye, 2005).

1.3.1.1 Women Empowerment

According to UN (2005) many efforts of the microfinance industry are aimed at empowering women to create their own businesses. From microfinance in other developing countries, small loans are given to those women who live on a smaller amount than $1 per day. By giving these poor women loans, the microfinance industry not only help them pull themselves out of poverty, but it also improves the income levels of the women whiles promoting gender equality throughout the world (UN, 2005).

1.3.1.2 Creates long-term financial independence

The most important benefit of microfinance is that it helps create long-term independence in these poverty stricken areas. See, it is one thing to send money, clothes and other goods to the poor. It is a great gesture, but the results of this transactional style of charity are short lived. Microfinance loan help create a sustained impact by educating customers on how to establish their own businesses and ways to manage and grow their returns whiles improving the clients children educational level (Black, 2008).

1.3.1.3 Share of firms and development

Microfinance documents a large number of institutions with high percentage of employment in most developing countries. In 2006, Ecuador recorded firms with less than 50 workforce for 95 % of firms and 55 % of employment whiles Bangladesh recorded enterprises with fewer than 100 workers representing 99 % of enterprises and 58 %t of employment in 2007 (Hellberg, 2013). Relative research on industrialization shows a similar illustration in the volume of distribution of institutions as industrialization proceeds. In developing countries, immense popularity of institutions is microfinance, small scale institutions existing along with large scale enterprises. However, medium scale enterprises report of a comparatively larger portion of employment and production. Many countries trend towards larger firm came as a result of size and continues as per capital income increase (Snodgrass, 2009). The size of distribution of firms in Taiwan or China has stayed quite stable over the past 30 years, while the structure of production has changed from labor- intensive manufacturing to high-tech computer industries (Philip, 2009).

1.3.1.4 Labor intensity

A microfinance institution employs a large share of workforce in many developing countries, but the query is if they are more labor ambitious than the local banks (for a given scale of production). Little, 2011 and Biggs, 2013 argued that, in industries, microfinance institutions are more labor intensive than local banks (Little, 2011 and Biggs, 2013). However, the confirmation offers that the enterprise balance is unreliable guide to labor intensity as any microfinance are in more capital demanding than local banks in the same industry (Abedi, 2012). Labor intensive exhibits more variations across industries than among firm-size teams inside industries, as a result some researches propose that efforts to make labor-demanding and economic growth should focus on changing the outline of demands in support of labor-intensive industries instead of on the provision part efforts to alter the size distribution of firms (Storey, 2007, Nasar, 2010, and Williams, 2013). The fact that microfinance employs a huge workforce in rising countries may be more a sign of the product work of production in these countries than an inbuilt labor-intensity of small firms.

1.3.1.5 Job creation

Critical factors and growth firms have higher gross jobs creation and destruction rates than the local banks. Microfinance offer less job security than larger firms, Yet it appears that job destruction during recessions is lower in microfinance than in large banks perhaps due to greater wage flexibility in the microfinance institutions (Ananson, 2010).

1.4 Efficiency of the microfinance industry

Measures of enterprise efficiency (for example, labor productivity or total factor productivity vary greatly both within and across industries. Firm size may be associated with some other factors that are correlated with efficiency, such as management skill and technology, and the effects of the policy environment. In the US and UK manufacturing sector, industries in which larger firms have a greater market share have greater productivity growth. Most studies on developing countries show that the smallest firms are the least efficient, and there is evidence that both small and large firms are relatively inefficient compared to medium scale firms (Robertson 2011). It is often argued that microfinance institutions are more innovative than larger banks. In developing countries, microfinance institutions often follow ‘niche strategy' using high product quality, flexibility, and responsiveness to customer needs as means of competing with large-scale mass producers (Boadu and Biggs, 2010). Many microfinance institutions bring innovations to the market place, but the contribution of innovations to productivity often takes time and larger firms may have more resources to adopt and implement them (CGAP, 2008).

1.4.1 Wages and benefits

Though there exists no consensus on the adequate wage that suitable for a good working condition, evidence from research shows that, employees of larger firms are offered better wages, job offers, fringe benefits, and an opportunity for skills enhancement which translates into a better working condition and ensures job security (Davis, 2012). MFIs in low income countries such as Ghana have lower productivity as compared to larger banks and therefore are unable to offer higher wages and non-wage benefits as compared to larger banks. This greatly affects the productivity of the microfinance industry as there is divergent of labor productivity from the microfinance sector to the formal financial sector which narrows industrialization proceeds (Wilson, 2007).

1.4.2 Social, political and equity justification

The MFIs was said by Hallberg (2009) contribute immensely to an equal distribution of income. Owners and workers of MFIs are located in the minor part of the income allocation, promoting the growth of microfinance maybe as a result of equitable allocation of income. Moreover, the approach of promoting microfinance in achieving equity objectives could be less effective than direct methods, for instance, income transfers (Hallberg, 2009). In practice, government's decision to promote microfinance is based primarily by political and social considerations rather than economic gains. Most often, the growth of small is regarded as part of democratization and social stability. Thus, it is often argued that microfinance promotion is justified on grounds of the job-creating prowess of their greater efficiency and growth (Mohammed, 2009).

Efforts are made to describe a causal link between microfinance and poverty mitigation in order to justify policies and subsides in favor of microfinance. However, Hallberg (2010) stated that factual evidence supporting many of these assertions are diverse, making it very difficult to defend microfinance promotion on the basis of economic benefits of smallness. Microfinance and micro enterprises accounts for a large share of firms and employment this explains why governments in developing countries should be interested. Microfinance in developing countries is an evolving aspect within the private sector and a thus form the basis of the private Sector growth (Bob, 2011).

1.5 Financial System of Ghana

Ghana's financial system of Ghana has undergone a course of liberalization, transformation and restructuring over the last two years. The transformation process was due to the Financial Sector Adjustment Programs I and II (FINSAP I and II) which was executed from the late 1980s to the mid-1990s (Bank of Ghana, 2014). An overview by Ackah and Asiamah, 2014 shows that the banking sector 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).

The Ghanaian financial system is well structured and composed of 27 banks, 50 Non-Bank Financial Institutions and 126 community and rural banks under the Apex banking system. The central bank of Ghana has categorized banks based on a licensed system (Annual report, 2010).

- Class I Banking Licence-Universal banking
- Class II license- Universal and off-shore banking
- General Banking- both Universal and Universal and off-shore banking and ARB Apex Bank

According to a study by Ackah and Asiamah (2014), the Ghanaian banking industry has transformed to accommodate changes in the global and domestic macroeconomic environments, prudential regulation, organizational and conduct deregulation beside technological and financial innovation (Ackah and Asimah, 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 Continued depreciation of the Cedi, Slowdown in the pace of economic activity, Fiscal challenges, Upward trend in inflation which pose significant challenges to the banking sector (BoG, 2014).

In accordance with the legal framework, the Bank of Ghana through its supervisory functions was designed to be at par with the Basel Core Principles to enable an effective banking supervision. Banking and non-banking financial institutions, and forex bureau operates under this legal framework (Bawumia, 2015). According to Badu (2009), the recent economic growth of the country has diversified the financial system as a result from privatization of state-owned banks and the increasing competition among newly registered private banks (Badu, 2009).

Bank of Ghana Act 612 also established the monetary policy committee with the sole responsibility to formulate monetary policy and by so doing refocused the banks responsibility towards its main function of ensuring price stability. According to Kwesi and Ibrahim 2014, the Ghanaian banking sector has transformed tremendously to accommodate changes in the global and domestic macroeconomics environments, prudential regulation, and structural and conduct deregulation besides technological and financial innovations (Kwesi and Ibrahim, 2014).

1.5.1 Microfinance industry in Ghana

Certainly, the evolution of microfinance is not recent such that, credit groups and savings that have existed for years includes the "susu" of Ghana, "tandas" in Mexico, "cheetu" in Sri Lanka, "chit funds" in India, and "pasanaku" in Bolivia. Also there are several savings clubs are found in the world.

The culture of people saving and accessing small microloans from individuals and self help groups to start businesses has long been in existence. Asiamah (2010) indicates that the Canadian Catholic Missionaries first introduced the credit union in the Northern part of Ghana in 1955 (Asiama and Osei, 2007). Susu, one of the MFIs models in Ghana, was adopted from Nigeria and spread to Ghana in the early 20^{th} century (Asiama and Osei, 2007). Microfinance sector over the years has evolved and thrived into its present status. Since independence in 1957, several policies and programmes has been undertaken by different governments in the financial sector (Asiama, 2007). Among these policies include:

- Delivery of subsidized credits in 1950.
- Creation in 1965, the Agricultural Development Bank to address purposefully the financial requirements of the agricultural and fisheries sector.

- Creation of Community and Rural Banks and the launching of regulations such as 20 % total portfolio of commercial banks requirements to stimulate lending in agriculture and small scale businesses in 1970 and 1980.
- Moving from a restrictive financial sector system to a liberalized system in 1986.
- Enactment of PNDC Law 328 in 1991 to allow the creation of different sectors of non-bank financial institutions, comprising credit unions and savings and loans.

The policies have led to the evolution of three main categories of different types of MFI in Ghana. The financial system falls into three main categories from the more formal and licensed to the less formal and unregulated (Asiama, 2007). These are;

Tier 1 Financial institutions are classified under the company Act 179 of code 1963. This provides them with a legal identity as a limited liability company which subsequently would be registered under either the financial institutions (Non-Banking) Law 1993 (PNDCL 328) or the banking law 1989 (PNDCL 225) of the Bank of Ghana which allows them to provide financial services under the Bank of Ghana regulations. Rural and Community Banks (RCBs) operates under the banking law as commercial banks. However, they do not offer foreign exchange services and only have their cliental base in their area of operations with a minimum capital requirement. The savings and loans companies (S & Ls) which falls under the nine categories of non-bank financial institutions (NBFIs) are the most restricted in terms of service delivery but are most active in using microfinance methodologies to serve micro and small scale enterprises.

Tier 2 Credit Unions and Non-Governmental Organizations (NGOs) fall under the semi-formal system. They operate without a license from the Bank of Ghana though formally registered to offer financial services. NGOs are registered under company code and operate as limited companies. Poverty reduction is the main focus of NGOs and hence employs microfinance methodologies to reach out to poor people. They operate without a license to receive deposits and therefore rely on foreign donors for financial support. Credit Unions are regulated by the Ghana Cooperative Credit Union Association (GCCUA) as mandated by the Bank of Ghana. Registration of Credit Unions is done by the Department of Cooperatives and act as cooperative thrift societies that offer deposit services and also grant loans to their clients.

Tier 3 The informal financial system comprises of various activities referred to as Susu. These activities include individual savings collectors, credit association, savings and credit and rotational savings. The informal financial system also includes money lenders, self-help groups, trade creditors and personal loans from friends and relatives. Money lenders are registered under money lenders ordinance 1957 by the police.

1.5.2 Overview of International financial source to Ghana Microfinance

The Microfinance industry over the years has seen some contributions from donor's organizations, agencies and investors in and outside the country (Ghana). The microfinance industry has grown expeditiously in Ghana since the beginning of the present decade, growing by 20-30 percent annually (Ghamfin, 2015).

Currently, an estimated 15 percent of the country's total population have access to financial services from microfinance institution in comparism with the 10 percent offered by the commercial banking sector. The industry today continues to grow and hinges on donor support and interventions but there are still remains huge gaps as evidenced by the lack of alternatives and competitively priced on on-lending funds for the MFIs in Ghana (Gyamfi, 2013). This couples with bank of Ghana's recent minimum capital upwards adjustment across the sector has called for sourcing for alternative funding. A cursory observation of the sector indicators shows that most of the institutions are not well positioned to attrite cheaper sources of funds. In recent times, the microfinance has witnessed some level of liquidity challenges and reduction in the growth of loan portfolio (Aseidu, 2013). The industry needs lots of investments in both debt and equity financing to help the MFIs grow in terms of outreach and also to be financially sustainable in promoting the financial inclusion agenda in Ghana. The only way Ghana can achieve its desired objectives on financial inclusion is to support the growth and sustainability of the MFIs to enable them provide wide range of financial products that is affordable, accessible and sustainable to all manner of clients especially the low income and vulnerable groups.(Mills, 2009). The high rates charged on interest by the MFIs in Ghana are as a result of high cost of funds from the commercial banks. Owing to these challenges of high interest rate charged by the MFIs, clients who are usually low income earners and the poor are made to pay these high rates which could lead to high default rate, over-indebtedness and collapsed of the microfinance institutions in some cases (Moses, 2011). These events threaten the purpose of financial inclusion as the financial products offered by the MFIs are usually not affordable the poor and vulnerable groups (Quayson, 2009).

Large amounts of local and international investment are crucial for enabling for expected MFIs growth. Today, around 85% of the funding international donors, where as 15% originated from local investors (Watson, 2007). Although, many argue that domestic funding is the most desirable one since domestic capital markets are less expensive and more flexible compared to foreign investments. Nonetheless, the continuing involvement of local markets investments remains important until foreign investments have developed and are able to take the funding lead. As results, foreign microfinance investments are expected to grow in the future (Acheampong, 2009). Approximately 82% of all foreign donors go to regulated MFIs. Generally, three sorts of investment alternatives exist. Firstly, own funds, such as grants and donations or equity capital. Secondly, debt such as loans or debt securities and thirdly retail funds can be found in more mature microfinance institutions (Asamoah, 2009).

1.5.3 Types of international Donors to Ghana

Funding the operations of MFIs remains one of the very important factors in ensuring that the microfinance institutions have the needed resources to effectively bridge the finance gap existing between the formal and informal sector of the economy (Adjei, 2010). According to Annim (2011), although the amount of funds circulating in the microfinance industry has increased from a few million US dollars in the 1980s to billions in recent times, it is still far lower than what is required to meet the current demand the industry is receiving. Most microfinance institutions today are struggling to rise or source for adequate capital to support the high demand for loans and other service services to enable them continuously extend their services to the poor (Annim, 2011). The high demand for products and services of the microfinance institutions are attributable to the fact that these institutions have succeeded in providing solution to the financial needs of low income earners the poor. Most microfinance institutions have potential loan requests, that is loan requests that meet all requirements laid down by the microfinance institution of which repayment can be generated from the activities for which the facility is going to be used on their tables but do not have the liquidity to extend these facilities to their clients. Several animated groups are still in waiting for additional borrowing after paying off their previous facilities. However, these groups would have to keep waiting list of the other fund providers or donors hoping to secure some financial assistance to enable them to meet their loan demands (Ayeh, 2014).

There are several sources by which MFIs may raise funds to finance their activities. These sources may be in a form of grants, subsides and loans from foreign donors or investors (Amponsah, 2015). This section will explore the various types of international donors which help finance most of the microfinance institutions in Ghana.

1.5.3.1 Accion International

Accion International is a global non-profit institution and a world leader in microfinance with the purpose of creating a financially inclusive world. Over the last 52 years, the Accion international has helped in building 62 microfinance institutions within 32 countries including Ghana. These institutions are presently reaching millions of clients. Accion is one of the largest microfinance networks in Ghana and since its outset, has reached hundreds of clients with loans and support (Ghamfin, 2015). Accion spearheaded the cause of an all financial inclusion around the world through its centre for financial inclusion. Accion international collaborates with other stakeholders in the industry to tackle challenges that are beyond the spectrum of any of the sectors.

Accion pioneered the cause of protecting the interests of the microfinance clients by setting up the smart campaign. Many microfinance institutions, microfinance support donors' organizations, individual industry professionals and investors have engaged in the smart campaign which represents more than 130 countries. Over 1,000 microfinance institutions are now involved in the smart campaign which currently serves more than 40 million MFI clients (Gyamfi, 2015).

1.5.3.2 Luxembourg, Ada, Inclusive Finance Expertise

ADA is a non-governmental organization which has been devoted to building and assembling the financial networks and populations. ADA through the Luxembourg microfinance and development foundation has also assists most MFIs in Ghana for financial funding that meets their sustainable growth. The main focus is on developing innovative inclusion financial services which confide on action research and capacity building (ADA, 2015).

1.5.3.3 Symbiotic International

Symbiotic international is an investment company which specializes in emerging, inclusion and sustainable finance. Since its establishment in 2004 in Geneva, Symbiotic international is involved in the provision of investment advisory, market research and asset management services. Symbiotic international is regulated by the Financial Market Supervisory Authority (FINMA) with license from the Financial Conduct Authority (FCA), a UK based subsidiary. Symbiotic international is an asset manager composed of a collective investment schemes with its headquarters situated in Geneva and offices in London, Cape Town, Zurich, Singapore, and Mexico City.

It is not only the microfinance institutions and their services that have developed over the past years; the funding of them has also undergone major changes. As of today, one could in a rough manner explain the microfinance investment chain as having microfinance funds providing capital to microfinance institutions, which in turn, provide micro-entrepreneurs with small loans that are being granted for productive purposes. Since then, numerous circumstances have led to the commercialization and development of the microfinance industry. For instance, a number of microfinance institutions have developed and moved from being donor provided to go public and become commercial banks. Apart from providing funding through microfinance institutions, some countries have initiated stimulation programs to make traditional banks more involved in microfinance (Lensink and Spierdijk, 2011). This growth has caused the financing requirements to increase rapidly, which in turn has led to major transformations where funding has now become donor support funds, to become more dependent on commercial sources (Ghamfin, 2006).

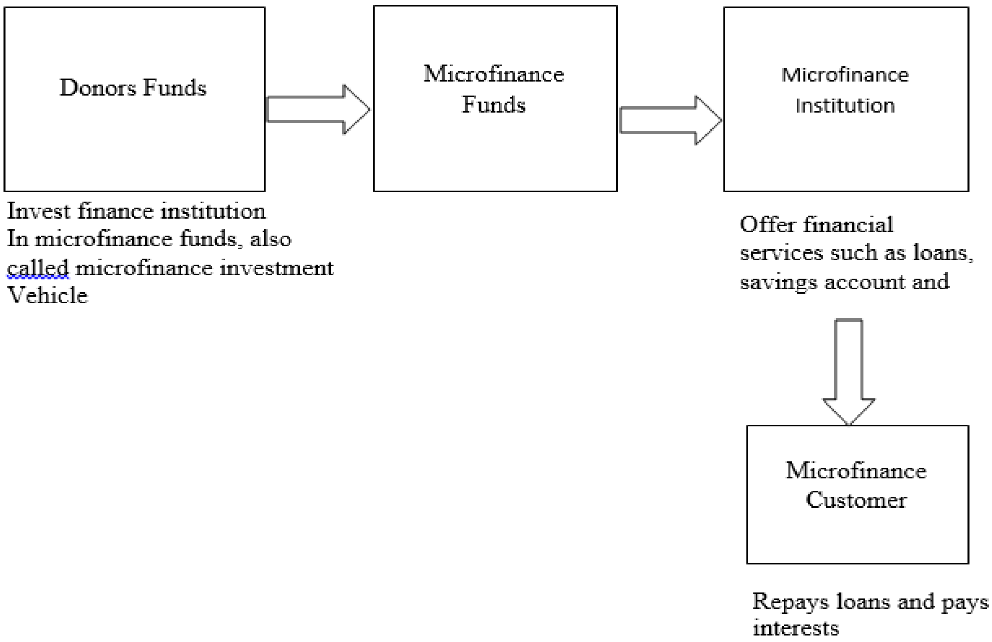

Figure 5: Chain of Donor Funds

(Source; Adopted from own figure base on description from Micro Rate, 2011)

1.6 Impact of International Financial Supports to Microfinance Institutions

Donors funding has played a vital role in supporting the growth of the microfinance industry in Ghana. This type of funding has supported the establishment and expands most of the microfinance institutions in most developing countries' most especially, Ghana. Funding from donor agencies has come to subsidize the activities of the microfinance business in their set up stage and has solved the problems faced by these start-ups in mobilizing funds for on-lending purposes which are needed in increasing amounts. The truth is that such enterprises (start-ups) are in most cases unable to raise adequate funds to support their existence and further improve upon their outreach (Ayeh, 2014).

The International financial sources support has played very significant support to most microfinance institutions to Ghana microfinance industries. The supports has increased and impacted positively to the growth of the microfinance institutions in Ghana.

1.6.1 Growing Microfinance Market

The microfinance industry is largely characterized by a large number of most MFIs in Ghana. To put this in perspective, microfinance institutions currently have around 100 million borrowers, while the total potential demand is approximately at one billion people, so they need to seek an external funds to re-establish their businesses. The international financial donors have assisted most of the microfinance institutions and have expanded their institutions, meet their target groups, and increase their growing market. This ratio shows an unexploited growth potential corresponding to a growth factor around 10 times thus constituting an emerging investment opportunity (Fraser, 2008). Subsequently, it is clear that microfinance is looking for more external funds to make their institutions more sustainable (Aryeetey, 2010).

1.6.2 Social Return

Reaching out to the heterogeneous group of poor people around most developing countries, the main objective of microfinance is to provide the working poor with a sound institution by helping the microfinance institutions with favorable conditions (Ababio, 2015). The microfinance is given the tools necessary for the poor to climb out of poverty in a sustainable way. Social returns of microfinance investments contributes to the overall reduction in the world poverty and sustainable development through the creation of millions of jobs, a reduction of child mortality, improved maternal health and improved housing conditions as well as gender equality and women empowerment.(Asare, 2009).

1.6.3 Financial Return

The microfinance industry is characterized by small institutions in comparison to traditional commercial banks, clients lacking guarantees and risky country environments. Nonetheless, commercially oriented donors are increasing funding the microfinance institutions with capital to enable most of the microfinance institutions to issue loans to their clients and meet their target groups (Amissah, 2013). The table below illustrates the benchmarks financial return for 2011 which describes that, both Ghana MFIs and borrowers per loan officer and per staff are higher than Africa and the global peer benchmarks. Whiles RCBs equaled the African peer benchmark but fell below that of the global peers.

Table 1: Financial Return Benchmarks for 2011

Indicator/Peer Group	Types Of Institutions	
Borrowers per Loan Officer	**All MFIs**	**RCBs/Rural Banks**
Ghana	321	269
Africa	237	269
Global	231	280
Borrowers per Staff		
Ghana	108	61
Africa	71	61
Global	100	102

Source: GHAMFIN, 2012.

1.6.4 Sustainable Humanitarian Aid

The international financial sources supports assists in serving as a donations, commercial microfinance investments offer a perpetual and sustainable contribution. In other words, the rapid money for a loan from the international donors can be transformed into new loans and contributes with the opportunity for a sustainable humanitarian aid thereby reducing and elevating poverty and hardships in the world (Ayeh, 2012). In addition, a world of increasing emphasis on corporate social responsibility companies investing in microfinance automatically benefit from the media attention, nothing compared to an expensive campaign (Clark, 2008).

1.6.5 Technical Assistance

MFIs strive to achieve financial sustainable. The achievement a technical efficiency is necessary for achieving financial sustainability. Donor funding is known as one source of assistance that can help in the achievement of technical assistance. Technical assistant programs by donor funds should therefore include the improvement of operations, increase in competitiveness, averting insolvency and the continual provision of services to clients. As opined by Branch (2012), the adoption of effective technical assistance can lead to improved practices that eliminate future problems (Branch, 2012). MFIs are able to achieve self-sustainability through technical assistance as compared to financial assistance as technical assistance is intended to solve issues that should have been solved by the organization itself (Rhineland, 2007). Through the provision of subsidies, donors are able to equip MFIs to not depend on subsidized sources of funds (IPC, 2010).

1.7 Challenges faced by the Microfinance Institutions while seeking International Financial Supports

Nofsinger and Varma, (2011) urged that, several developing economies such as Ghana, access to capital by International donors remain particularly challenging as a result of the high risk operating environment. There is high appreciation of the relevance of the commercial micro finance in contributing to the growth of developed and developing economies. However finance for commercial micro finance activities in Ghana has been by conventional method of obtaining loans from financial institutions (Nofsinger, J. and Varma, A).The microfinance industry has been noted to be donor dependent and as such, with the need to access more capital, MFIs must be able to understand their sources as well as their clients (Davies, 2005). Commercial micro finance is an investment that requires easy access to medium and long term capital at convenient terms and conditions. Due to the numerous challenges in accessing micro finance especially in relation to high interest rates by donors funding, commercial micro finance are now very challenging for the average Ghanaian to operates without International donors support. It takes about six to a year for average micro finance practitioner to effectively secure funding from International donors (Graphic Online, 2014). On the other hand, countries with cheaper and innovative methods of accessing donor's funds are inclined to benefit from International assistance. These countries are also able to apply for loans and grants to sustain and maintain other investment opportunities through their institutional frameworks (BOG, 2012).

Despite the tremendous impact donor funds play in the development of the microfinance industry coupled with the effectiveness of the industry in the provision of documents such as total number of loans, cumulative money borrowed and repaid, portfolio size and average loan size, the industry still face some challenges towards accessing financial assistance from foreign financial source (Appiah, 2012).

1.7.1 Years of Operation

Lin (2008) suggested that, years of operation are very vital for the international donors. Unfortunately, a lot of the MFIs in most developing countries has not being in existence for a limited number of years, like two years and above which makes it very difficult to grant the microfinance institutions financial assistance which is an essential requirement before granted financial support by the international donors, this implies that, most of the microfinance institutions has not been granting their clients and the poor who are starts up of their own business who don’t have enough funds (entrepreneurs) for a longer period, meaning that, the microfinance institutions has not really improved the lives of many entrepreneurs and also has not assisted or helped them grow their capital and long term financial independent in most developing countries, which makes it very difficult for most of the MFIs to help improved the livelihoods of the poor income earnings of their clients, making life difficult because of lack of financial assistance from the MFIs and the high standard of living in the economy, Furthermore, it’s resulted to high default rate charged by MFIs on their clients (Lin, 2008). By making loans in small amount to poor entrepreneurs, its assists the entrepreneurs the chance to lift themselves out of poverty which results in promoting living conditions and supportive services to the entrepreneurs (Adjonyuh, 2007).

1.7.2 Language

Language is considered as one of the greatest challenges faced by MFIs. Most international finance institutions nowadays use language as a requirement for the access of funds which has lead to the high disconnection existing between international and financial institutions MFIs. As the debate on poverty reduction and sustainability of the MFI industry is ongoing, MFIs need to transform and overcome the issue of language that will ensure access to funds needed for the industry to continue in the act as a tool for poverty reduction (Adonyah, 2007). In the promotion of identity, marketing and positioning, language may serve as an ideological issue that is faced by many MFIs. For instance, the MFI industry makes emphasis on financial and operational self-sufficiency whiles donors rely on profitability and net income. Adding to this, whiles the term customers are often used by donor institutions, MFIs make use of outreach or number of clients. Whiles MFIs employ the use of strategic plans for funding their projects, business plans are adopted by donor organisations and therefore, the inability of good communication on the part of both parties hinders the MFI industry in achieving its set goals and objectives and therefore affects the development and success of the MFI industry. Good communication is therefore a tool that could drive donor institutions to assist MFIs in their quest to achieving their objectives (Kohlhepp, 2012).

Bulloch and Sullivan (2010) made a comparison between donors oriented language and microfinance oriented language used during seeking financial assistance which affects the institutions because the industries does not use the right kind of language and terms to the understanding of the international donors.(Bulloch and Sullivan, 2010).

Below is an illustrations of terms used between the international donors and the microfinance institution.

Table 2: Terms of operation used by MFIs and Donors

Donors Oriented Language	**Microfinance Oriented Language**
Clients	Customers
Outreach	Marketing
Sustainability	Profitability
Social Motivated Returns	Financial Motivated Returns

Source: The Microfinance Schism World Development, 2000.

1.7.3 Track Records and Transparency

Track records and transparency is very vital for microfinance international donors. Microfinance institutions have reported extremely loan losses, about 30-50% which is tremendously bad in the financial system. Being aware of the great difficulty for business in the poor areas, criticisms have been questioning the accuracy of the statistics provided (Smith, 2007). Therefore, the donors demand documented performance when making their investment decision and it is therefore vital for microfinance institutions to have their financial reports and official documents arranged. Donors also find comparable sources helpful to weigh against each other when making an investment decisions (Encarta, 2007).

Unfortunately, there are very few microfinance institutions that have sufficient track records for their financial return, cost and level of loans losses. This general lack of information are poor transparency makes it impossible for donors to compare microfinance investment to regular investments (Balchin, 2010).

1.7.4 Lack of Knowledge

When microfinance institutions are promoting their financial services, it is clear that, the donors lack knowledge regarding the microfinance industry and its investments. Donors have generally not been educated enough to consider microfinance as an investment opportunity. Therefore, the microfinance investments simply must be better than other investment alternative and also have equal risks return profile to attract donor's attention (Sethumdhavan, 2007).

1.7.5 Bad Reputation

Microfinance is sometimes associated with a stereotypical negative image. Investors often picture microfinance institutions as non-profit organizations regardless of true performance as an entity with a social mission, a lack of governance expertise within the top management, an organization with weak balance sheets that is driven by donors. This negative image prevents potential donors to invest their money in microfinance (Nkyi, 2012). A criticism claims that microfinance institutions hurt the poor unfairly high interest rates. It is argued that, they charge higher interest rates to their customers as compared to the regulatory cap established by governments for traditional banking institutions. Criticisms also claims that as the commercialization spread, the balance between business and development in microfinance institutions will be in favor of the business. As many microfinance institutions become commercialized, the social programs previously offered could possibly be eliminated. This phenomenon is often referred to as mission drift. Consequently, these critics spread among the public and donors alike many ultimately lead to Microfinances bad reputation (Zhou, 2007).

1.8 Theoretical Framework

A conceptual framework is a model which presents and explains the relationship between specific variables of a study. The above assessment of literature suggests that, microfinance institutions in Ghana encounter challenges when seeking international financial support.

Following the literature reviewed above, the following framework has been adopted for the study:

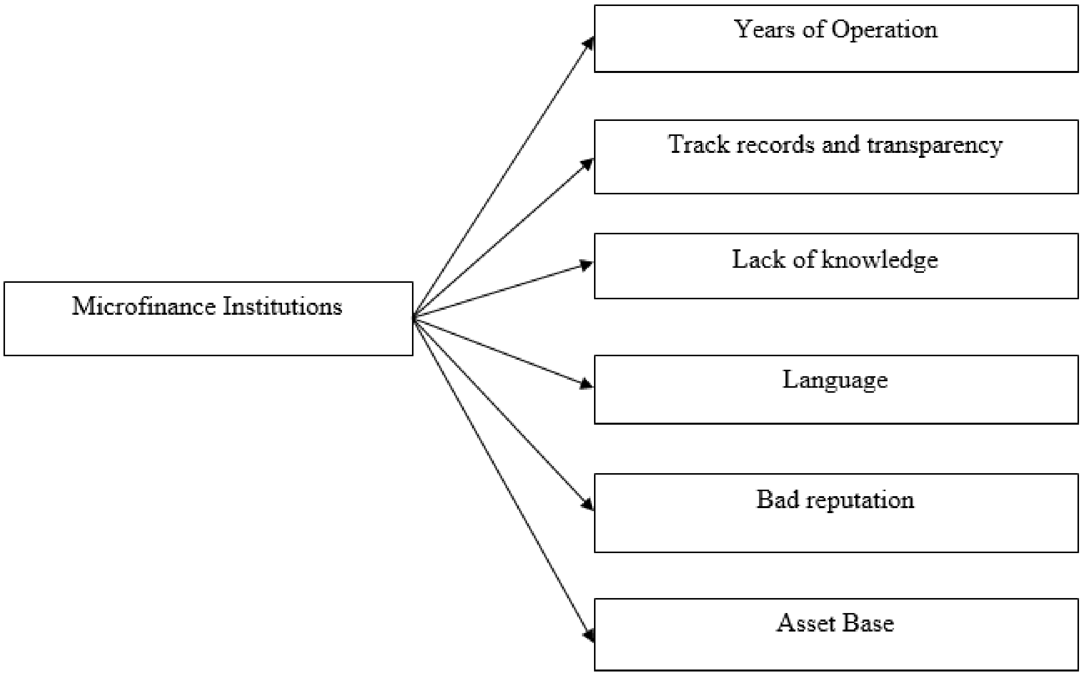

Figure 6: Conceptual Framework

(Source: Authors own adopted from GHAMFIN, 2012)

1.9 SWOT Analysis of commercial Microfinance Institutions in Ghana

SWOT analysis is a unique tool that helps to understand the nature of a study or project. A SWOT helps in identifying the Strengths, weakness, opportunities and threats of a project which is important for the success of a project. By identifying the weakness and strengths of a study, the researcher would be able to eliminate the threats and therefore leads to the success of the project or study. To understand the nature of the microfinance industry in Ghana and successfully answer the objective of the study, the SWOT analysis as presented in table 3 below was adopted.

Table 3: SWOT analysis of commercial Microfinance Institutions in Ghana

Stakeholder	Characteristics	Strengths	Weaknesses	Opportunities / threats for the project
Rural Population	Vulnerability & deprivation, Unreliable sources of Income, Lack of collateral	Community experience, knowledge, commitment.	No full understanding of complexities in credit system, Illiteracy, Technological backwardness	**Opportunities:** Increased employment opportunities, Increased access to inputs, Increased access to markets, Development of group spirit. **Threats:** Inability to service debt, High interest rates, May create discord in harmonious relations
Microfinance Institutions	Body in charge of finance. Ensure access to finance, ensure sound financial transaction in The economy.	Power of Ideas, Support of local population and organisations, Coordinating Functions, Coverage of relevant aspects, Constitutional Commitment,	Limited capacity in terms of manpower & technology, Lack of institutional network, Lack of experience, No field presence.	**Opportunities:** No major corruption, Effective coordination (in capacity building), Establish Financial Institutions, **Threats:** Failures due to Lack of experience, Isolated/Independent approaches, Piling up of debts due to low debt service rate,
Donor	Provision of funds, Contribution to Development.	Provision of funds, Policy support Financial and material assistance Technical assistance	No direct access to local communities (due to no field presence)	**Opportunities:** Reliability in other projects, Development of a network of financial institutions, **Threats:** Unreliability of continued finance, Increase in political dominance.

Source: Authors own

2.0 AIMS OF THE THESIS

The study aims to examine microfinance and its challenges to International sources supports to micro finance in Ghana, focusing on those firms operating in the Accra metropolitan area identifying their strength, weakness, opportunities and threats they derive from the growth of International Financial sources supports in recent times, specifically, the research aims is at the following;

2.1 Objectives of Study

The main objective is to examine the challenges facing microfinance sector in Ghana in terms of financial sources support.

2.2 Specific Objectives

The study was to focus on the following specific objectives:

1. To examine the impacts international financial sources can help develop the micro finance sector in Ghana.
2. To identify the types of international financial sources that support microfinance sector in Ghana.

2.3 Research Questions

In carrying out the objectives stated above, the research will pursue to answer the research questions relating to challenges of Micro finance in relations to international financial sources support to Ghana.

1. What are the challenges encountered when seeking financial assistance from international donors?
2. What are the ways international financial sources can help the microfinance sector?
3. What are the types of international financial sources that support microfinance sector in Ghana?

To answer these research questions, an assessment of the current finance sources for commercial micro finance institutions activities in Ghana will be carried out. The research question will also attempt to explain the challenges of financing in the commercial micro finance institution. The answers will interpret the strategies of commercial micro finance in Ghana and its ultimate impact on the clients.

2.4 Research Hypothesis

1. There is a significant relationship between years of operation and amount of loan granted.
2. There is a significant effect of how long it takes before a loan is granted on the amount of requested.
3. There is significant effect of how long it takes before a loan is granted on the amount of requested.

2.5 Limitations of Study

The researcher envisages some limitations in relation to the soliciting for information and data from the various International donors and individual respondents who matter in this study. However since this has been foreseen, measures will be designed to mitigate these challenges to a large extent.

Time is a critical limitation to the researcher as the research will be carried out and submitted within a limited time frame whilst the researcher has to meet several other academic obligations as a result of the outlook of the program.

The erratic load shedding situation in Ghana is also another major limitation to the researcher as the lights are mostly out and researcher is unable to have access to electricity to access computers and other resources.

Lastly, there is a general apathy towards academic research in Ghana, and this will pose a strong limitation to this research because individual or institutional respondents initially might be reluctant to complete the researcher's questionnaire and even grant an interview; that is because most potential respondents see academic research as a way of revealing their business secrets and as a waste of time since they do not see the instant merit of their contributions.

3.0 Materials and Methods

This chapter was centered on the criteria on how the data of the research were gathered, the research methodology employed, the kind of data collected and the target population, the data analysis employed, the sample size and the sampling techniques used in the study. The studies specifically looked at the challenges, as well as the impacts of the MFIs and the types of IFIs in Accra metropolitan area.

3.1 Research Design

The main goal of the research is to find out the challenges facing micro finance sector in Ghana in terms of financial sources support. Base on this, the research was focused on microfinance institutions operating in the Greater Accra region. A total of 80 questionnaires were successfully distributed among the MFIs used in the study. Out of the total 80, 71 questionnaires were filled and returned representing 88.75% response rate. The section starts with background information of the microfinance institutions used in the study. This is followed by credit acquisition history of the MFIs and ends with the challenges faced by the various MFIs in the accessing international financial sources.

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 has an estimated 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 80 Microfinance institutions were targeted for this study and hence adequate number of questionnaires prepared to meet the target population. A total of 71 questionnaires out of 80 questionnaires distributed were successfully answered and returned. This represents an 88.75% 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. The primary data source collection was the main administrative of the questionnaires. The questionnaires were administered to the general managers of the microfinance institutions to obtain accurate information on the challenges that can be classified as challenges of the microfinance institutions in relations of international financial support in the study area. This enable the researcher to understand and answer the set objectives as presented in the section 1 above.

The secondary data were obtained from reviewing related textbooks and literature reviews as well as important novels relevant to the study. Newspaper sources and policy proposed documents of the bank of Ghana and other related online journals sources such as the microfinance handbook database and consultant Group to assist the poor clients that 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 discover the challenges of microfinance institutions in relations to international financial source in the study area response our research hypothesis, the study followed the techniques used by Hes (2013). The study first computed on a chi-square test, the views of the general managers on the challenges that are faced by the microfinance institutions in relations of international financial sources support to Ghana. The chi- square test which is a measure of disparity between observed and hypothetically expected results, with the H_0 of no correlation between the group samples. The Chi-Square test of independence enables the researcher to make a claim of statistical relationship between two variables by determining if there exist a dependency between a dependent and independent variable. Assumptions for Chi-Square test are minimal and can be used to measure variables on different levels; nominal, ordinal, interval or ratio making it suitable for this study. Also, many researchers have employed the use of the Chi-Square and though it is known as not to provide enough information, it's widely usage makes it an important statistical tool in the economic and social science field. The Chi-Square test as compared to others such as regression can be used to analyze small data size. The Chi-Square tests the difference between the observed and expected values of a sample population.

Mathematically, Chi-Square test is represented below,

$$\chi^2 = \sum_i \frac{(O_i - E_i)^2}{E_i} \qquad (1)$$

Figure 6: Chi-Square Formula

Where;

O_i is the number of observed cases in a category i, and

E_i is the expected number of cases in category i.

The chi square statistic (X^2) is calculated by subtracting the observed number of cases from the expected number of cases in each category. The square of the difference is calculated and then divided by the expected cases in the category. The values obtained are then summed up to obtained what is referred to as chi-square.

4.0 RESULT

This section of the study illustrates the analysis and interpretation of data collected for the purpose of the study. Out of the total 80, 71 questionnaires were filled and returned representing 88.75 % response rate. The section starts with background information of the microfinance institutions used in the study. This is followed by credit acquisition history of the MFIs and ends with the challenges faced by the various MFIs in accessing international financial sources.

4.1 Background Information of MFIs

The research sought to examine the challenges faced by various Microfinance Institutions in Ghana with regards to their access to international financial sources, we first found out the period of existence of the MFIs consulted for the study. This is essential as it would give an idea on the age of the MFI which can be used to determine the experience of the MFI in terms of accessing international financial sources.

Table 3 represents the period of operations of the various microfinance institutions employed in the study.

Table 3: Years of operation of MFI

Years of operation	Frequency	Percent
0.5-1	12	16.9
4-5years	11	15.5
6 and above	48	67.6
Total	71	100.0

Source: Authors own from field questionnaires

From table 3, it can be inferred that, the microfinance institution has been operation for a longer period. A total of 12 of the microfinance institutions have been in operation for the periods between 0.5 - 1 year representing 16.9 % of the total sampling population. 11 of them have also been in business within 4-5 years representing 15.5 % of the total population. The study showed that, 48 of the total microfinance institutions have been in business for 6 years and above representing 67.6 %. Statistically, the table 3 above shows that, more than the total respondents 71 have been in operation for a longer period which indicates that, most of the microfinance institution has been granting their clients loans for a longer period, meaning that, the microfinance institutions has really improved the lives of many entrepreneurs in Ghana which intend makes life of their clients easier and better despite the high standard of living in the country. Furthermore, its helps the clients to pay their loans on time thereby, reducing the defaults rates of the clients.

Most microfinance institutions are known to target women as their main clients. It has been argued that, the targeting of women by these MFIs is of the notion that, most women are capable of repaying their loans as compared to men and as such the spending of women are most often geared towards income generating which enables them to repay their loans and hence helping the MFIs to reduce their default rate. More so, most MFIs have the aim of poverty reduction and as such as most women in most developing countries such as Ghana are known to be poor, the best way to achieving their aim is to target women. This study therefore found it of outer most importance to investigate the target group of the MFIs engaged in the study. This was done to verify if the MFIs in the study follow the basic knowledge of targeting women. A look at table 4 illustrates that, the microfinance institutions in Ghana targets women as the main tool and growth of their business because out of the 43 respondents representing 66.6 % of the microfinance institutions revealed that, their main target of their business are women because women have been shown to spend more on their income on their household, therefore, when women are helped to increase their income, the welfare of the family is improved. Moreover, women success benefits more than one person. It is a well-documented fact that, women are more likely to spend their profits on households and family than men. 28 of the respondents representing 39.4 % of the total sample population targets entrepreneurs.

Table 4: Target population of MFIs

Target group	Frequency	Percent
Women	43	60.6
Entrepreneurs	28	39.4
Total	71	100.0

Source: Authors own from field questionnaires

Microfinance institutions are set up to provide financial services to the poor in the society who are unable to have access to such services by formal baking institutions. An example of such services is the provision of microcredit. The study therefore investigated the average loan size disbursed to clients by the MFIs used in the study. With regards to average microloan to clients, the study found out that, most of the MFIs have difficulties in lending microloans to their clients due to finance difficulties.

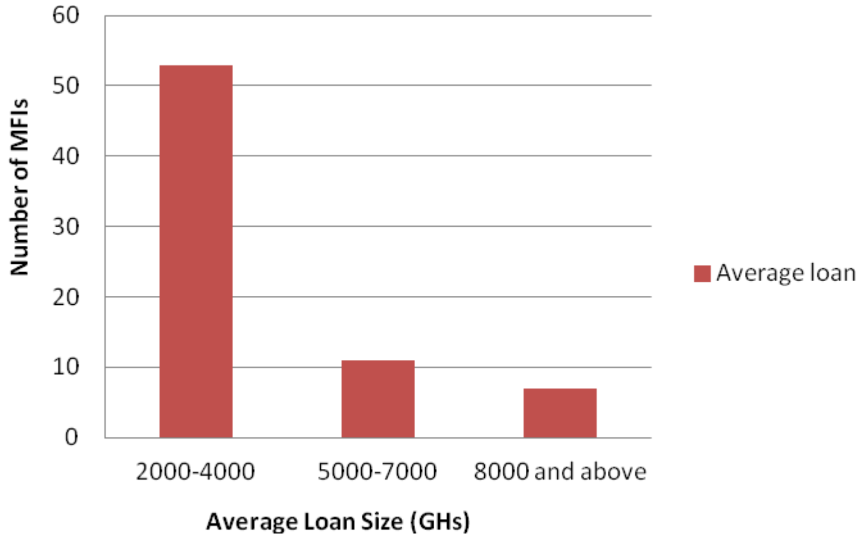

Figure 7: Average Loan Amount Disbursed
(Source: Authors own from field questionnaires)

In the figure 7, it was estimated that, majority of the respondents (53) representing 74.6 % provided between 2000-4000 Ghana cedis (Ghs) to their clients due to financial difficulties faced by the MFIs in the country and high default repayment of loan by their clients. This is followed by (11) of the total sampling representing 15.5 % disbursed an average amount between 5000-7000 Ghs in a year. Lastly, 7 MFIs out of the total sampling (71) reveals that, their average loan was 8000 and above representing 9.9 %.

One challenged faced by most MFIs is the inability to ensure lower default rates. The inability of an MFI to collect adequately, the amount of loans disbursed affects its sustainability and therefore, the study sought to have an insight in the client attitude towards repayment of loans.

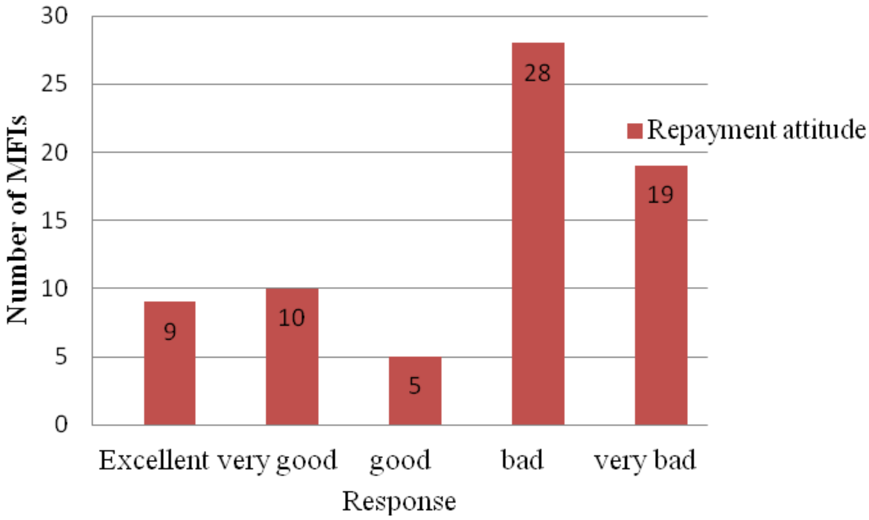

Figure 8: Repayment attitude of clients
(Source: Authors own from field questionnaires)

This was done as it will enable the researcher to know the overall performance of clients on their repayments of loans in the various microfinance institutions which will help the institutions to know whether their making profits or lose when grating loans to their clients. With regard to repayments of loans by clients from the various institutions, the study revealed that, 9 of the respondents representing 12.7 % from the institutions said, repayment of client's loans was excellent. Whiles (10) of the respondents representing 14.1 % also revealed that, repayments of their clients loans is very good meaning that, their clients pays their loans early and timely. 5 of the respondents revealed to the researcher that, repayment of their client's loans is good. From the table 4 above, it could be infer that, majority of the microfinance institutions said the repayments of their clients loans is bad representing 39.4 %, because, clients do not repay their loans which affects the institutions because, the microfinance institutions mostly rely on the profit making of the loans granted to their client to run the business and if their clients are not paying their loans, its affects the business sustainability and they have no other alternative of financial assistance than to seek financial assistance from international donors which intends reduced the payment of loans to their clients thereby affecting their clients base. Lastly, (19) of the total respondents representing 26.8 % also revealed that, repayments of their client's loans are very bad which affects the institutions global competitiveness.

As established above in figure 8, most of the MFIs reported a bad to very bad repayment loan rates of their clients. In response to this, the study investigated mechanisms put in place the MFIs to deal with the inadequacy in repayment of loans by clients of the MFIs. The use of risk hedging was found out as one main tool used. 75 % of the respondents answered yes when asked if they make use of risk hedging whiles 25 % answered no representing 17 of the MFIs. This is represented in figure 9 below

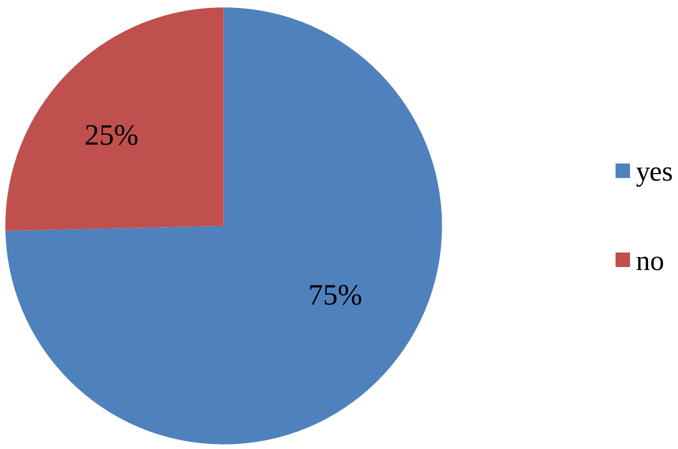

Figure 9: Response on the use of risk hedging by MFIs

(Source: Authors own from field questionnaires)

4.2 Assessment of International financial sources by MFIs

To answer the main objectives of the study, it was worth understanding if MFIs have accessed credit from international financial sources. Looking at figure 10, 48 representing 68 % of the total MFIs in the study answered yes when asked on their accessibility to international financial sources 32 % however, answered no.

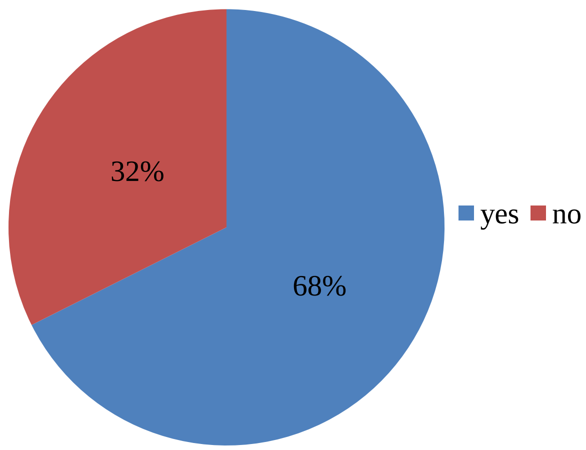

Figure 10: Response on accessing International Financial Sources

(Source: Authors own from field questionnaires)

Results in the figure 10 infer that, (48) respondents representing 67.6 % said that, they access international funds to finance their microfinance institution because international donors are the keen support to their institution success, and also to be more sustainable to achieve global competitiveness. Whiles (23) of the respondents which represent 32.4 % said they haven't access international funding because the interest charges is more expensive and complex requirements before granted the loan or assistance.

Also on the question of the main sources of fund support by the MFIs, 63 respondents representing 88.7 % of the microfinance institutions revealed that, they rely solely on international donors funds as shown in figure 12 to finance their expected growth, they need a huge amount of funding to assist them expand their microfinance institution and also to meet their target groups, whiles given out loans to increase their profits thereby leading to increasing of clients base in their institution. However, 8 of the total respondents (71) representing 11.3 % seeks loans from the banks. As the firm expands, they begin to seek for additional finance which can be classified mainly into equity finance and debt finance.

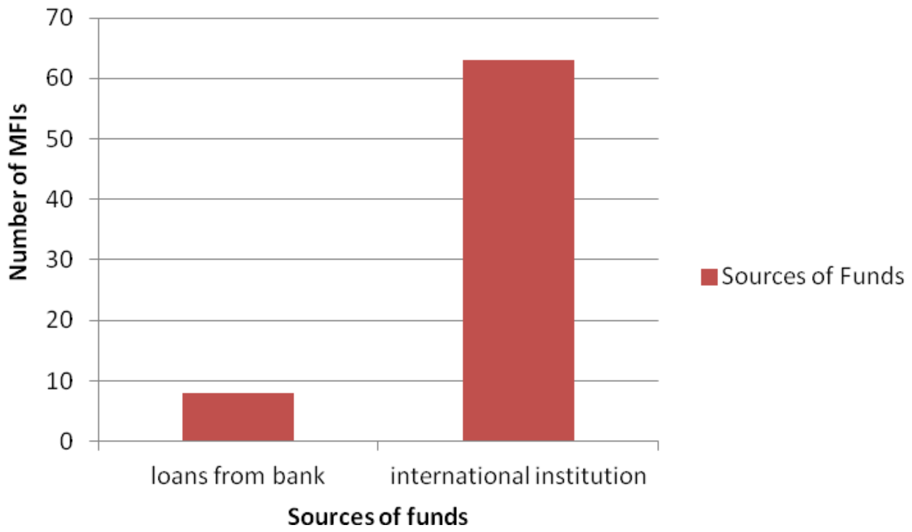

Figure 11: Sources of Funds

(Source: Authors own from field questionnaires)

Poverty reduction has been identified as one main aim of most microfinance institution. The study therefore found out the main purpose of accessing funds from the sources mentioned in figure 11 above. Table 5 shows the response on the purpose of accessing funds.

Table 5: Purpose of funds

Purpose of funds	Frequency	Percent
Poverty reduction	18	25.4
Profit	46	64.8
Socio-Economic Development	7	9.9
Total	71	100.0

Source: Authors own from field questionnaires

The above table describes response that was given by the microfinance institutions and out of 71 respondents, only (18) of the total sampling representing 25.4 % said they use a small amount of their funds to helps in poverty reduction, whist,(7) of the sampling representing 9.9 % assist in social economic development. The study also inferred that, (46) of the microfinance institutions representing 64.8 % main purpose of their funds is solely for profit making because after seeking assistance from the international donors, they intend to give out loans to their clients with interest charges in which at the long run, the interests generates profit to the microfinance institutions because as some point in time, organizations needs to reinvent or reengineer their business method in other to stay sustainable and face future challenges.

Further, the study investigated the time it took to receive the amount requested and also if the microfinance institution received the requested amount. Figure 12 and table 6 represents the amount requested and the time taken to receive the financial support.

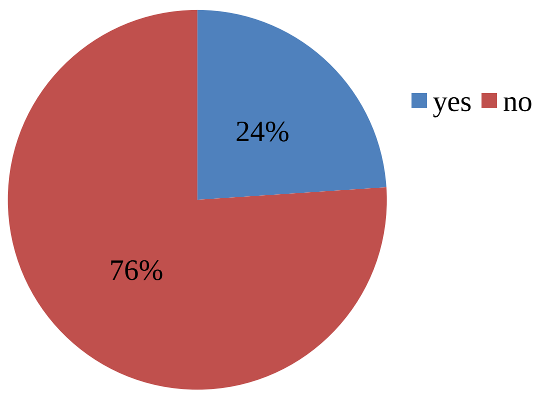

Figure 12: Response on amount requested

(Source: Authors own from field questionnaires)

From the data analyzed, it was inferred that, 24 % which represents (17) of the microfinance institutions had access of the amount they requested from the international donors. Whiles 76 % representing (54) revealed that, they do not have access to the amount the requested when seeking funds from international donors, because of their limited of number of years they have been operating and lack of asset base of their institutions, which affects them negatively whenever seeking donors funds.

Table 7: Period taken to receive support

How long did it take you to get the support	**Frequency**	**Percent**
0.5-6 months	52	73.2
7-1 year	18	25.4
2 years and above	1	1.4
Total	71	100.0

Source: Authors own from field questionnaires

The table above depicts the duration it takes to have access to International donor's funds by the microfinance institutions. Which reveals that 0.5-6months of 73.2 % representing (52) microfinance institutions have access to their loans from donors funds timely whiles 25.4 % representing (18) of the respondents have the requested loans between 7-1year. Furthermore, 1.4 % representing (1) of the respondents said its takes 2years and above to have access of their funds because of not failure to fill out all funding forms correctly and also not providing the most the vital information during the process of filling personal information of the institution so its affect the loan processes which results in delaying of loan issuance.

Figure 13 below depicts the requirements that must be met by the microfinance institutions in their quest to access international financial sources. This was investigated as it will help the researcher to know the requirement to be met before granted a loan by the international donors. For that matter, the researcher will be able to know if the requirements are difficult or easier to be met by the microfinance institution. In that, when the requirements are difficult, the microfinance institution will not be able to access the loan from the international financial institutions which will affect the productivity and the success of the microfinance institution thereby affecting the lives and the standard living of their clients which will results to decrease of client base.

From figure 13, 29.6 % of the respondents revealed that, whenever, before their institution would be granted loan, the donors request them to issue their assets base of their institution for assessment before their microfinance institution would be granted a loan. Whiles 5.6 % of the respondents revealed that, the donors would like them to bring along a loan guarantor before their application would be processed and qualified for the loan for their institution. Moreover, 52.1 % also revealed that, the years of operation is very vital to the international donors because, before a microfinance would be granted for a loan, they have to be in operation for a longer period of time, that means they have been in existence for a long time and for that matter, they have been issuing more loans to their clients for a specific period of time so they have the experience in managing and given out loans to their client thereby making the institution more sustainable. Also, the international donor’s demands for their assessment of cash inflow records of their institution that assist the funders to know the in and out flow of the microfinance institution funds which will enable them know how they manage their microfinance institutions.

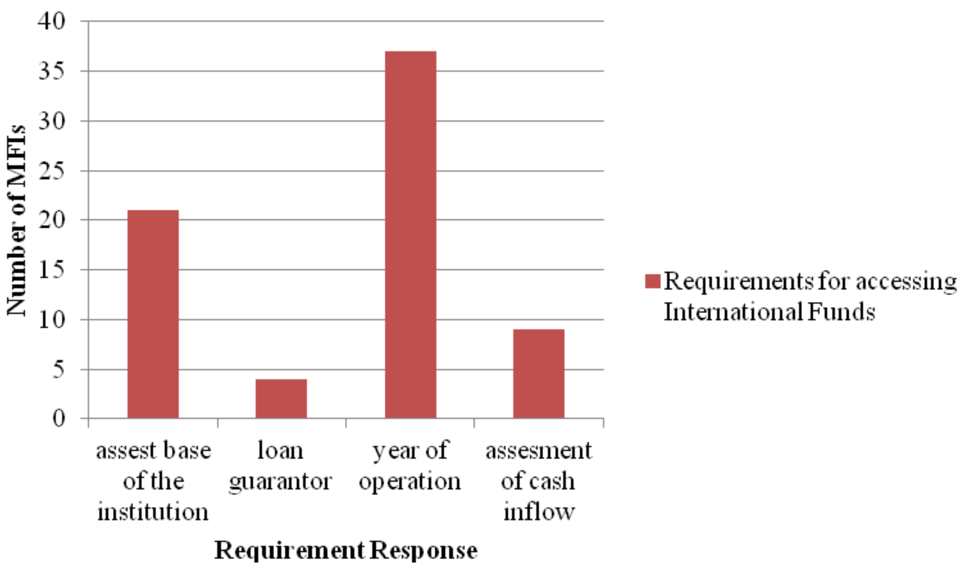

Figure 13: Requirements before granted financial support

(Source: Authors own from field questionnaires)

Even though the international donors play a very significant role in the Ghanaian economy, the growth of the microfinance institution is greatly stunted as a result of financing difficulties. Since most of these institutions can be classified as microfinance they are faced with limited access to capital markets both locally and internationally. Unlike large firms like the commercial banks, fidelity banks and the likes who may stand a better chance of establishing a better banking relationship with the financial institution and have good credit history to satisfy lending requirements of their clients, the microfinance institutions usually perceived lenders as higher risk. As a result they usually attract higher transaction costs and have limited access to long-term finance.

The major challenge were years of operation representing 23.9 % whiles loan guarantor and the asset base of the institution representing 23.9 %. The least of the challenges faced by the microfinance institution is financial report of the institutions represents 22.5 % when seeking assistance from the international donors. As shown in graph 8, the major and the least challenge they face is inability to pay the amount requested from the microfinance institution representing 29.6 %.

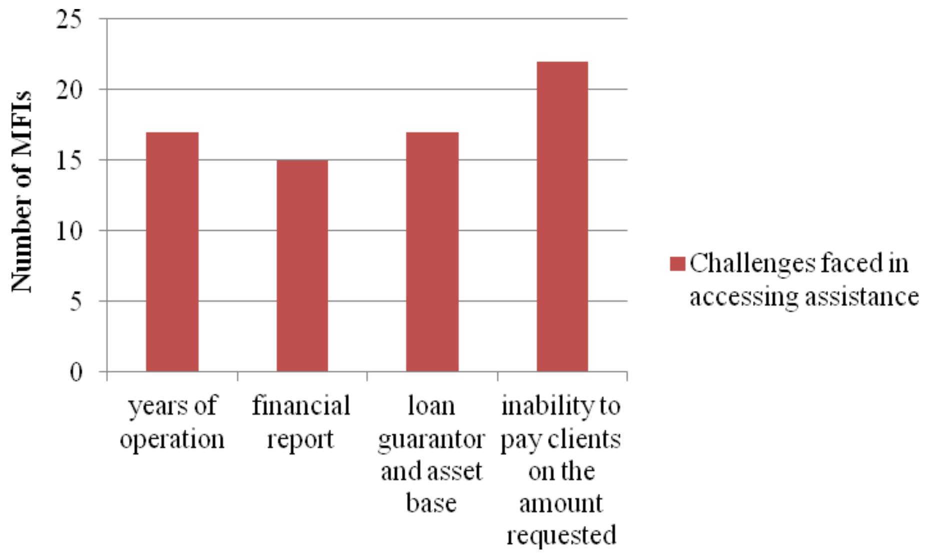

Figure 14: Challenges faced while seeking assistance

(Source: Authors own from field questionnaires)

Figure 14 shows whether the assistance the microfinance institution received from the international donors has helped them tremendously or negatively. The figure revealed that 24 respondents out of the total respondents representing 33.8 % practically agree that, the funds has positively helped them to meet their target groups most especially women. The remaining 47 representing 66.2 % suggested that, the donors funds has assisted them to expand their business by given out loans to their client whereby their profit level is extremely high which has resulted in better standard of living.

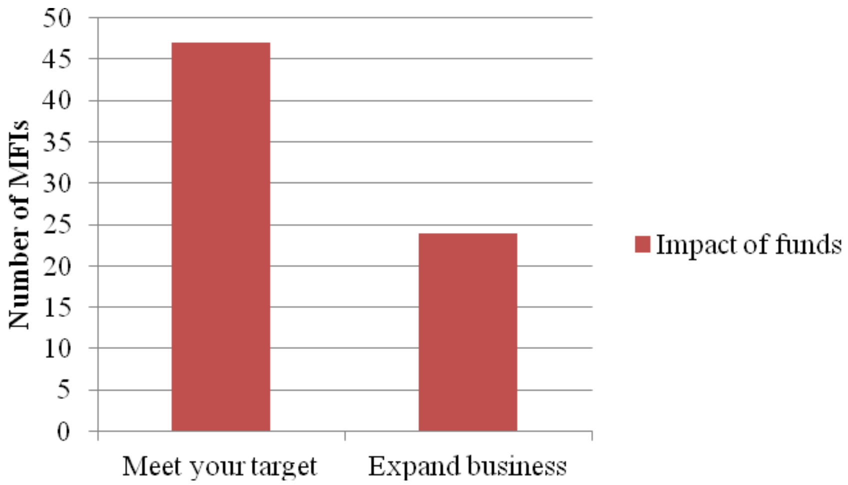

Figure 15: Impact of support from international financial sources

(Source: Authors own from field questionnaires)

In table 8, the study revealed that, (18) out of the total sampling representing 25.4 said the cross border funding is cheaper while, (53) respondents reveals that, the cross border funding is more expensive which represent 74.6 % of the total percentage.

Table 8: Cross border funding

Cross border funding	Frequency	Percent
yes	18	25.4
no	53	74.6
Total	71	100.0

Source: Authors own from field questionnaires

Also, From the figure 14, it was estimated that, 83.1% of the total population revealed that, they are expecting more funding in the next 3years because, that will assist them to prevent any future occurrences. Lastly, 16.9 % of the total population said they don't expect any future anymore funding from the international donors because the interest rate charges is more expensive and that, they will seek for other alternative in financing their microfinance institution.

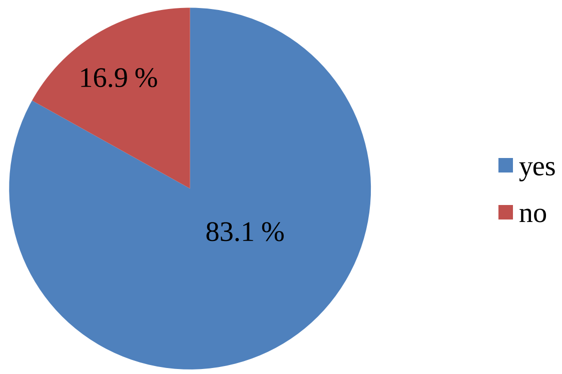

Figure 16: Response on expecting more funds in the next 3 years

(Source: Authors own from field questionnaires)

4.4 Empirical analysis of challenges of microfinance institutions in Ghana

To answer the research hypotheses (1-3), the study employed the use of Chi-Square statistical tool. Years of operation was identified as one challenge of the MFIs employed in the study. The study therefore sought to find out the impact of years of operation on the amount of international finance requested. This helps answer the first hypothesis of the study;

Hypothesis one (Null and Alternative)

H_0: =0 There is no significant effect of years of operation on the amount of loan granted.

H_1: ≠0 there is significant effect of years of operation on the amount of loan granted.

Decision Rule:

If p calculated < p at 0.05 significance level, we reject the null hypothesis (H_0) and accept the alternative hypothesis, otherwise, we accept it.

Table 9 represents the Chi-Square analysis of the impact of the years of operation on the amount of loan granted. From the table, a look at the two-sided asymptotic significance of the chi-square statistic reaches 0.021 and thus is less than level of confidence of 0.05. This statistically confirms the relationship between years of operation and amount of loan granted and we thus reject the null hypothesis. We therefore conclude that years of operation of has an effect on the amount of loan granted to MFIs in Ghana.

Table 9: Chi-Square analysis of years of operation and amount of loan granted

	Value	Significance Level
Person chi-square	7.715	0.021**

Significant at p (0.05) **

Source: Authors own from field questionnaires

To answer the research hypotheses (2), the study employed the use of Chi-Square statistical tool. How long it takes to get support was identified as one of the question asked in the MFIs employed in the study. The study therefore sought to find out the impact of how long it's taking to get the support on the amount of international finance requested. This helps answer the second hypothesis of the study;

Hypothesis one (Null and Alternative)

H_0: =0 There is no significant effect of how long it takes before a loan is granted on the amount of loan granted.

H_1: ≠0 there is significant effect of how long it takes before a loan is granted on the amount of requested.

Decision Rule:

If p calculated < p at 0.05 significance level, we reject the null hypothesis (H_0) and accept the alternative hypothesis, otherwise, we accept it.

Table 10 represents the Chi-Square analysis of the period of the how long it takes before a loan is granted based on the amount requested. From the table, a look at the two-sided asymptotic significance of the chi-square statistic reaches 0.00 and thus is less than level of confidence at p (0.05). This statistically confirms the relationship between how long it take before a loan is granted and amount of loan granted and we thus reject the null hypothesis. We therefore conclude that the period it takes before a loan is granted depends on the amount requested to MFIs in Ghana.

Table 10: Chi-Square analysis of how long it's taking to have access to a support and amount of loan granted

	Value	**Significance Level**
Pearson Chi-Square	24.215[a]	.000**

Significant at p (0.05) **

Source: Authors own from field questionnaires

To answer the research hypotheses (3), the study employed the use of Chi-Square statistical tool. Criteria before granted financial support was identified as one of the challenges asked in the MFIs employed in the study. The study therefore sought to find out the criteria before a loan before granted financial support on the amount of international finance requested. This helps answer the first hypothesis of the study;

Hypothesis one (Null and Alternative)

H_0: =0 There is no significant effect of criteria before a loan is granted on the amount of requested.

H_1: ≠0 there is significant effect of how long it takes before a loan is granted on the amount of requested.

Decision Rule:

If p calculated < p at 0.05 significance level, we reject the null hypothesis (H_0) and accept the alternative hypothesis, otherwise, we accept it.

Table 11: Chi-Square of criteria before granted financial support and amount of loan granted

	Value	**Significance level**
Pearson Chi-Square	65.814[a]	.000**

Significant at p (0.05) **

Source: Authors own from field questionnaires

Table 11 represents the Chi-Square analysis of the impact of the how long it takes before a loan is granted based on the amount requested. From table 11, a look at the two-sided asymptotic significance of the chi-square statistic reaches 0.000 and thus is less than level of confidence at p (0.05). This statistically confirms the relationship between criteria before a loan is granted and amount of loan requested and we thus reject the null hypothesis. We therefore conclude that criteria before a loan financial support is granted have an effect on the amount of loan requested to MFIs in Ghana.

5.0 Discussion

This chapter is a discussion of the summary of the research findings, discovered in the course of the research. It also comprises the recommendations that can be implemented to mitigate the challenge of accessibility to finance by the microfinance institutions.

The data analysis revealed that, a lot of the microfinance institutions has been in a existence for a long period which is an essential requirement before granted financial support by the international donors, this implies that, most of the microfinance institution has been granting their clients and peoples who are starts up of their own business who do not have enough funds (entrepreneurs) for a long period, meaning that, the microfinance institutions has really improved the lives of many entrepreneurs and also has helped them grow their capital and long term financial independent in Ghana which intend makes them improved their livelihood through income earnings of their clients, making life easier and better despite the high standard of living in the country. Furthermore, its helps the entrepreneurs to pay their loans on time whiles gaining profits thereby, reducing the defaults rates of the MFIs.

By making loans in small amount to poor entrepreneurs, its assists the entrepreneurs the chance to lift themselves out of poverty which results in promoting living conditions and supportive services to the entrepreneurs (Adjonyuh, 2007). GHAMFIN (2012) states that by granting loans to entrepreneurs has enabled them expand, meet their target clients and has assisted their businesses to flourished and sustainable, by making their lives more self-dependent, lowering the living standard of the entrepreneurs reducing the unemployment rate in Ghana, whiles limiting the burdens on government amenities and assistance in the country. Microfinance allows many start-up business practitioners to receive financial support to carry out economic activities to improve their livelihood, through enhanced income earnings (Ayeh, 2015).

Making reference to the analysis in table 4, the microfinance institutions main target of their business are women because women have been shown to spend more on their income on their household, therefore, when women are helped to increase their income level, the welfare of the family is improved. It is well-documented fact that, women as compared to men are more likely to spend their income on households and families. According to a survey performed by Despande and Burjorjee (2010), twenty-nine (29) institutions that responded to the survey together serves over 1.6 million clients, 60% of whom are women. This supports the assertion that majority of the customers of the microfinance institution (MFIs) are women.

Some other researchers like Crecer (2009) in Bolivia and Kashf (2014) in Pakistan also have been made augmenting against and for targeting of women on the grounds of sustainability and efficiency. Advocates of MFIs targeting women on the grounds of sustainability cite women's repayment records and cooperativeness that, lends exclusively to women (Crecer, 2009). Women have better repayment behavior compared to their male counterparts (Roodman and Qureshi 2006). Furthermore, a collective wisdom has emerges that women's repayment rates are typically far superior to those of men. Lower arrears and loan loss rates have an important effect on efficiency and sustainability (Fraser, 2013).

Lastly, it was observed that, one of the often eloquent rationales for supporting and targeting of women by MFI programs is that microfinance is an effective tool for empowering women. By assisting women with financial resources, MFIs help to level the playing field and thereby promoting gender equality (World Bank, 2008).

Conventional Bank loans have been the major sources of finance for most business development in Ghana including microfinance institutions. In Ghana, the big banks does not regard the microfinance industry and also see them as a high risk lenders because of that, the credit facilities offered by the banks are usually short term and are coupled with very high interest rates. This is also a major setback for most of the microfinance institutions due to the unique and complex cash flow structure of microfinance institutions activities.

Based on my field survey, it can be deduced that, as the firms expands, they seek for additional finance. Most of the microfinance institutions in Ghana rely solely on international donors funds though the interest rate is high as compared to the conventional banks but the microfinance still patronize and are interested in applying for loans from the donors to finance their expected growth, because, they need a huge amount of funding to assist them expand their microfinance institutions and also to meet their target groups, whiles given out loans to increase their profits thereby leading to increment of clients base in their institution.

The European Summit on Global Microfinance Investment, (2008) held a conference in London gathering lending persons from the microfinance institutions field reported that, Europe has significantly increase their microfinance international donors funding investment as a part of the current social investment trend to most African countries. In addition, the summit also highlighted the urged of additional investors in order for the MFIs to continue to grow. This matter was covered during a recent conference (Sullivan, 2010).

A recent study concluded that, over 75% of the microfinance institutions rely solely on international funds in Africa and in order for microfinance institutions to act in a sustainable way, every single microfinance institution has to be profitable, so the microfinance institutions requires more funding supports so the interest rates should be low so that new start up microfinance institutions who don't have enough funds will be encouraged to secure loans to run their business, though the interest rates of the international donors are high, people are still encouraged to take loans from them as compared to loans from the banks which also have higher interest charges (Nordic, 2011).

Initially, many Microfinance institutions were founded as non-profit organizations focusing on the social and reduction of poverty aspects of the country, and the microfinance institutions received their funding from donors as grants and subsidizes, both public and private, and aid organization to help them in accomplishing their mission (Reducing poverty social aspects). Since then, many factors have led to the development and commercialization of the microfinance industry, because nowadays, the grants and subsides received by the microfinance institutions has decreased over the last decades, the purpose or goal for any firm is to make profit, so for the microfinance institutions to be sustainable, provide loans and services to new clients and face future challenges, they need to reinvent or reengineer new strategy in assisting them acquire another alternative of external funds where they can have a huge sum of liquidity and disburse the funds to their clients as loans and the repayment of the loans by their clients are charged with an interest charges and the interest is used to finance many MFIs in western Africa.

Ledgerwood (2006) highlighted that although microfinance institutions has increased considerably in recent years, significant growth was lacking and microfinance institutions are still far from reaching a significant portion of the population , though microfinance is a term used to target the poor who are considerably risky, because aid supports are limited, most microfinance institutions has now ended up being profit making institutions mostly in Ghana in aiding them to be more self-sufficient and sustainable.(Ledgerwood, 2006).

Even though the microfinance institutions play a very significant role in the Ghanaian economy, the growth of the industry is greatly stunted as a result of financing difficulties. Since most of these institutions can be classified as MFIs, they face the challenge of limited access to capital markets both locally and internationally. Unlike large firms who may stand a better chance of establishing a better banking relationship with the international financial donors and have good credit history to satisfy lending requirements. The International financial institutions consider certain factors when granting credit facilities to these microfinance institutions. From analysis of data, it can be said that, the international donors consider years of operation. Further Research indicates that, Years of operation is a major requirement in securing international donors support especially in Ghana. It is the practice to secure loans from the donors before a loan will be granted. This is to ensure the ability to repay the loan and also to ensure business-owner commitment to the project. Because most microfinance firms in Ghana are unable to meets these requirements that are able to matchup the loan amounts they require hence fail to secure the loans which is a great set back or hindrance to the microfinance industry (Davis and Gabriel, 2010).

As suggested by Nkyidonors (2012), the donor's demands for assessment of cash inflow records as their major requirement from the microfinance institutions to assist the funders to know the institutions in and out flow activities of the microfinance institution funds which will enable the funders to know how they manage their finance in the microfinance industry but unfortunately, most of the institutions does not possess and meets this vital requirement (Nkyi, 2012).

A study of 16 different microfinance institutions from all over the world pointed out that having access to donors funds have led to an enhancement in the quality of good services to most microfinance industry and thus has increase their self-confident level that has assisted them to expand their business and satisfied their targeted clients, thereby assisting their clients to diversify their livelihood security strategies whiles their income earnings has increased (Nyamekye, 2013).

Abraham (2010) suggested that, fears were usually based on wrong information or perceptions they hold about the international donors. In a recent survey by CMA (2014) only 11.5 percent of the microfinance institutions corresponding 32 respondents said that, donor's funds has not aided them expand their business nor meet their target groups. Those who sought information and made attempt said, the donors' funds were largely successful (70 %) in expanding their business and meets their client's needs and institutional clients focus which results in increments of client's base (CMA, 2014).

Even though there are strong supports for donor’s funds, there are also advocates arguing there are problems with donor’s funds and this is important to examine in order to try to avoid them (Ayeh, 2015). Even if donors funds reaches many microfinance institutions that other banks have failed to reach, there are those who argue that donor’s funds cannot reach everybody due to their rigid requirements based on the length of years the microfinance has been existence of operation not less than 5years is a major blow to the microfinance industry (Woller et al,2006).

Irobie (2008) investigated that, inability of the microfinance institutions to comply with the donors requirements has not resulted the institutions not having the granted funds from the donors, nor have the required amount requested because of poor structure and mismanagement of the institution.(Irobie, 2008).

Even though the international donors play a very significant role in the Ghanaian economy, the growth of the microfinance institution is greatly stunted as a result of financing difficulties faced by the institution. The results in my discussions indicates that, Years of operation, financial report, loan guarantor and asset base, and inability to pay clients on the amount requested are the major challenges faced by the microfinance institution based on my field survey. The results support the findings of Mohammed (2008) and Ibrahim (2010). Management of an Microfinance institutions or Microfinance investment vehicles needs to focus on what they do best by managing a microfinance financial report, seeking opportunities to increase its financial inclusion footprint, adding value to its donors to enable them have access on the amount they request from their donors, as well as increasing the performance of the entity and ensuring its long-term sustainability.

Like other international donors investors that are subject to financial reporting requirements, microfinance and microfinance investment vehicles needs to comply with external financial reporting rules the international donors’ funders such as the IFRS, USAIDS or Dutch GAAP. These reporting frameworks can be complex and are also evolving over time. Within these frameworks, there are specific requirements for donor’s investments funds and microfinance-like the microfinance years of operation and the need to have a loan guarantor that requires deep industry knowledge, experience and flexible access of funds without any challenges (Patrick, 2015).

6.0 Conclusions

The Ghana Microfinance industry over the last two decades has seen some contributions from donor funds outside the country. Microfinance as a development tool has become an integral part and important strategy for the development agenda of most emerging economies. MFI growth in Ghana has increased rapidly since the commencement of the present decade, growing by 20-30 percent annually. The MFI sector in Ghana has witnessed growth in both outreach and in the number of registered and non-registered MFIs. The industry today, continues to grow and hinges on donor support and interventions but still remains huge gaps as evidence by the lack of alternative and competitively priced on-lending funds for the MFIs.

The study investigated the challenges facing microfinance sector in Ghana in terms of access to international financial sources support. It further investigated the ways international financial sources can help in the growth and development of the microfinance industry in Ghana and also, to identify the types of international financial sources that support the microfinance sector in Ghana. The study investigated 71 microfinance institutions, with regard to the years of operation, it was deduced that, most of the microfinance institutions has been in operation for a number of years. From the study, 12 microfinance institutions were found to be operating less than a year, 11 of them operating between 4 to 5 years whiles a total of 48 has been in operation for over 6 years. Also, the study infers that, most of the microfinance institutions target women as their main clients. As noted, most microfinance institutions are known to target women due to the ability of women to repay their loans as compared to their male counterparts. Entrepreneurs were also identified as targets of the MFIs in Ghana. Entrepreneurs are identified as drivers of economic growth in most developed countries but this could not be said for most developing countries such as Ghana as access to credit is a main obstacle to entrepreneurial development. Targeting of entrepreneurs by MFIs in the study would therefore help solve the challenge of access to credit by small scale enterprises operating in the study area.

Microloan provision is identified as the main service provision by most microfinance institutions in Ghana. The study revealed that, most of the microfinance institutions provided between 2000 and 4000 Ghana cedis (Ghs) in the form of microloans to their clients per annum. However, this amount was identified as being below average due to financial difficulties faced by the microfinance institutions in the country and high default repayment of loan by their clients. The ability of microfinance clients to repay their loans is dependent on the sustainability of MFIs. Most of the microfinance institutions reported that, the repayment attitude of their clients was very poor and this could affect the sustainability of the microfinance institutions as microfinance institutions mostly rely on the profit making of the loans granted to their client to run the business. Microfinance institutions mostly operate on donor support to supplement the cost of transaction accrued during their operations. The study revealed that, most MFIs have acquired financial support from various international financial sources. However, some reported that, high interest charged on loans coupled with complex requirement for granting loans inhibited their ability to access international financial support.

Also a majority of the microfinance institutions revealed that, they rely solely on international funds. In order to finance their expected growth, they need huge amounts of funding to assist them expand their operations and also to meet their target groups, whiles given out loans to increase their profits thereby leading to increasing of clients base in their institution. As the firm expands, they begin to seek for additional finance which can be classified mainly into equity finance and debt finance from banks. It is of the notion that, most MFIs are set up with the aim of poverty reduction and as such strive hard to acquire external support which enhances their outreach potential. Contrary to the above mentioned notion, most of the MFIs reported that, they acquire external support for profit making only with only a small percentage going into poverty reduction. Financial sustainability is the outer most important aspect for the growth of most microfinance institutions nowadays and such the provision of microloan to clients of MFIs are not to help in poverty reduction but rather for revenue generation through interest charged on loans. This has led to most MFIs not engaging in poverty reduction programs but rather those that will help in efficient revenue generation. The years of operation, asset base, provision of loan guarantor and cash flow assessment were identified as the main requirement for accessing international sources of funds. Also, the research showed that, most of the MFIs received their loans in less than half a year (0-6years). However, about 1.4% of the MFIs reported that, they received their loans after 2 years of application. This could be as a result of not fulfilling the above mentioned criteria.

As mentioned above, the aim of the thesis is to investigate the challenges faced by MFIs in Ghana in accessing financial support from international finance sources. From the study, the age of the microfinance institution, the financial report, and provision of loan guarantor as well as inability of clients to repay their loans leading to high default rate were found as the major challenge to microfinance institutions in Ghana in terms of accessing International finance. Majority of the MFIs however agreed that, the period of operation as a criterion for loan accessing is a main challenge to them as most of the MFIs are very young in the provision of microcredit and other related finance services to their clients. Provision of a loan guarantor identified as a challenge to credit acquisition by MFIs from international donor institution was however identified as the lowest of the challenges. The study further investigated to verify the impact of fulfilling the set criteria for amount of loan requested. Empirical analysis showed that, there is a significant relationship between amount of loan granted and fulfilment of loan criteria. A p significance value of 0.00 was obtained and therefore suggests that, the ability of an MFI to fulfil all the criteria which includes, the age of operation, assets base and cash flow assessment of the MFI does affects the amount of loan to be granted.

Empirical analysis of the impact of years of operation on the amount of loan granted showed significance level of p at 0.02 which implies that, the number of years of microfinance institutions has an impact on its ability to be granted the requested amount from international finance source. The years of operation of an MFI could show the longitivity in the provision of financial services to their customers who show experience and trustworthiness of the MFI. As most of the MFIs were identified as targeting women and entrepreneurs, a long period of service provision would mean that, the MFI could contribute to employment creation as well as improving the living standards of women who are the most vulnerable in most societies of developing countries.

To conclude, the study revealed that, the number of years of operation, financial report, provision of loan guarantor and the inability of clients to repay their loans are the most challenges faced by microfinance institutions in accessing international financial sources. Empirically, the study showed that, years of operation, requirement for loan and the time taken to be granted loan significantly affects the amount of loan granted. We therefore conclude that, microfinance institutions in Ghana face challenges in accessing international financial sources.

6.1 Recommendations

Based on the research findings, policies and strategies had been recommended to strengthen operations of the microfinance industry as a means of achieving higher level of efficiency and sustainability and drawing lessons for the microfinance industry and national development.

1. The Government of Ghana should implement credit guarantee schemes for microfinance institutions. Under this scheme microfinance institutions who do not have adequate collateral can benefit from a percentage of the State guarantee to donors against losses on qualifying loans to eligible microfinance institutions. This will reduce the risk classification of the microfinance industry by the international financial donors and cushion the donors and investors against the challenge of high interest rate which are charged as a result of risk of default.

2. The microfinance institutions should train their managers and staffs on proper book keeping(financial report) so that they can have 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.

3. The government must make efforts to be able to gear towards the improvement of the institutional capacity and the regulatory framework of the microfinance sectors in Ghana. Since the microfinance institutions creates the largest number of jobs creation and make vital contribution to the economic development of Ghana as well as the local banks and international donors should reduce the interest rate charges for the microfinance institutions to make it attractive for more microfinance businesses to be able to make loans more flexible to enable the microfinance institutions access the loans without any difficulties.

4. The inappropriate institutional arrangements, poor regulatory framework, inadequate capital must be properly put in place in order to benefit the microfinance industries in their businesses. They should redesign their programmes to absorb and cover all the needs of the microfinance institutions towards their development programmes that 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. Donors and government of Ghana should consider offering grants to build the capacity of the managers and staffs of the MFIs rather than providing subsidized loans for lending clients whiles strategic financial linkages and alliances should be

encouraged between commercial banks, insurance companies, inputs suppliers and MFIs. This is to ensure adequate flow of funds and technical capacity to the microfinance institutions of Ghana through already established and sustainable MFIs.

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