



## PROLIFERATION OF MICROFINANCE INSTITUTIONS AND THEIR IMPACT ON THE GHANAIAN ECONOMY; HIGHLIGHT ON KUMASI METROPOLIS IN THE ASHANTI REGION OF GHANA

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### Abstract

This paper intends to investigate the rationale behind the sudden upsurge of microfinance companies in Ghana with particular concentration on Kumasi, (the second biggest commercial city in Ghana) and assess the impact of this dramatic phenomenon on the economy of the country. The study randomly selected ten microfinance companies and interviewed a cross-section of customers and extracted first hand data that were subjected rigorous statistical interpretations. The study revealed among other things that, microfinance companies play a very significant and positive impact on the lives of several people especially those in the informal sector of the economy. Several small, medium, enterprises (SMEs) depend on the credit facilities provided by microfinance companies. Because of the ease to mobile funds and give out grants its customers, most microfinance companies are thriving despite some challenging conditions like irregular repayment of loans, lack of competent and skillful managers or personnel

**Keywords:** Microfinance, Economy, Bank of Ghana (BoG), Highly Indebted Poor Country (HIPC), Small Medium Enterprises (SMEs).

### Introduction

Ghana is a developing country with a status of a lower middle income economy in West Africa. Ghana is one of the countries in the south of the Sahara that has experienced high poverty rate. The country was once a member of the Highly Indebted Poor Countries (HIPC) in the early parts of 2001 because of its level of poverty. It has been the objective of previous governments in the country to reduce the level of poverty. Most of the developing countries encourage the individuals to establish their own businesses as a means of reducing poverty.

Most of the people in Ghana are employed in the informal sector. Majority of the population in the country are involved in the small and medium scale enterprises. These businesses lack access to credit facilities and this is the main reason why the people in the economy remain poor. These businesses do not have access to loans from the main stream banks, because they do not have the acceptable collateral or they do not have the proper documents of their business to secure the loan.

In a developing country context, credit is an important instrument for improving the welfare of the poor directly as well as for enhancing their productive capacity through financing investment in human and physical capital (Khandker, 1995). The poor usually demand credit to invest in their business to enable them to boost production.

In Ghana, the greater percentage of formal lenders are the commercial banks and access to them are restricted to the bigger companies and businesses that can provide the collaterals demanded by these banks and also, they have the required documents to prove to the banks. Also, the banks are situated mainly in the urban areas thereby making it difficult for people in the rural areas to get access to them. Due to access to the banks in the rural areas, the people in the rural areas rely mostly on the informal lenders.

In Ghana, informal lenders are mostly individuals who usually go round to collect the money of small businesses mostly market women and vendors for safe-keeping. This system is known as the 'susu' system. These 'susu' collectors are able to give small loans to the people out of the monies they have collected.

Following the inability of the banks to provide credit facilities to the poor, people started to find ways to help the poor get access to loans and this led to the establishment of microfinance institutions.

Microfinance refers to provision of small loans and other credit facilities like savings, insurance, transfer services to poor low-income household and microenterprises. Microfinance encompasses the provision of financial services and management of small amounts of money through a range of products and system of intermediary functions that are targeted at low level income clients.

There has been an increase in the establishment of microfinance institutions in the last ten years. Between December 1997 and December 2005 the number of microfinance institutions increased from 618 to 3,133. The number of people who received credit from these institutions rose from 13.5million to 113.3million (84% of them being women) during the same period (Daley-Harris, 2006).

For the last ten years, we have seen a significant increase in microfinance institutions that have been established in the Ghana. The proliferation is as a result of microfinance finance institutions being able to provide financial services to a large number of the poor who do not have access to the banks. The microfinance institutions have helped the poor to develop the habit of savings.

The impact of microfinance institutions in Ghana is a subject worthy of examination for various reasons. The activities of microfinance institutions have grown rapidly and have helped a lot of poor people to develop their business. According to the Bank of Ghana, 344 microfinance institutions have obtained license to operate in Ghana as at February

2014. Ghana Association of Microfinance Companies also has over 628 members currently in all ten Administrative Regions of Ghana. Once the activities of microfinance institutions have come to stay, there is then the need to find out why there are so many microfinance institutions popping up and their impact on the economy of Ghana.

### Statement of Problem

The rate of poverty in Ghana and the lack of access to credit facilities in Ghana make it necessary for Ghanaian to find solution to this problem hence the establishment of Microfinance institutions. The poor people in the country especially market women, vendors, and farmers in the rural areas are the most people who lack access to credit facilities because they do not meet the requirements of the banks. A lot of microfinance institutions have been established with the intention of solving this problem. These institutions have spread all over the country but the question is: how are they contributing to the economy of Ghana? Are they having positive impact or negative impact on the economy? Have they been sustaining or easily fizzle out?

The issue at stake now is not about how many microfinance institutions that have been established in Ghana or where they are located in Ghana, but it is about why there are a lot of them being established. The issue here is that, are these microfinance institutions having an impact on the economy of Ghana?

### Objectives of the Study

The general objective of the study shall be to find out why there has been a rapid increase in the establishment of microfinance companies in the Ashanti region.

The specific objectives of the study shall be:

1. To determine the impact of Microfinance companies on the country's economy
2. To determine contribution of Microfinance companies to the development of small businesses in the Ashanti Region.
3. To find out the challenges of Microfinance Institutions in Ghana.

### Scope of the Study

The study aims at finding out why there are a lot of microfinance institutions being established in Ghana and also to analyze the impact of these microfinance institutions in the economy of Ghana. The study will be limited to Kumasi, the capital city of Ashanti region. The study will cover a cross-section of microfinance institutions in Kumasi; a section of the customers of microfinance institutions in Kumasi, and organized bodies that regulate the activities of microfinance institutions in Ghana.

### Methodology

The research was conducted by using both primary data and secondary data. The primary data was collected from the field while the secondary data was collected from the internet and other relevant sources like the Registrar Generals Department report, Ghana Association of Microfinance Companies (GAMC), Bank of Ghana (BoG) for information on the number of microfinance companies in the country.

For the purpose of this study, personal interview and questionnaire were employed by the study to gather information. Questionnaires were sent to the management and staff of selected Microfinance institutions and customers of Microfinance institutions to respond.

The research population for this study consists of the management of Microfinance Institutions, customers of Microfinance institutions and organized bodies that regulate the activities of these institutions. Simple random sampling was used to select ten (10) Microfinance Institutions and 30 customers of Microfinance institutions in Kumasi. Questionnaires were designed for the respondents to provide answers to it. The questionnaires comprised both open-ended and closed-ended questions. The open-ended questions allowed respondents to use their own discretion to discuss complex issues or concept by having unlimited chance in answering. The closed-ended questions gave the respondents a set of responses from which to choose the one which suited their understanding and thought of the question asked.

### Literature Review

**Microfinance**, according to Otero (1999) is “the provision of financial services to low-income poor and very poor self-employed people”. Microfinance refers to provision of small loans and other facilities like savings, insurance, transfer services to poor low-income household and microenterprises. (Ministry of Finance and Economic Planning). Schreiner and Colombet (2001, p.339) define microfinance as “the attempt to improve access to small deposits and small loans for poor households neglected by banks.” These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Therefore, Microfinance is the provision of financial services such as savings, small loans and insurance to poor people in the urban and rural areas who are not able to obtain such services from the banks.

In literature, the terms microcredit and microfinance are often used interchangeably, but it is important to highlight the difference between them because both terms are often confused.

**Microcredit** refers to small loans, whereas microfinance is appropriate where NGOs and Microfinance institutions supplement the loans with other financial services (savings, insurance, etc). Therefore microcredit is a component of microfinance in that it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services. According to Simanowitz and Brody (2004, p.1), micro-credit is a key strategy in reaching the MDGs and in building global financial systems that meet the needs of the most poor people.” Littlefield, Murdoch and Hashemi (2003) state

**Micro saving** is also a microfinance service that allows the poor individuals to safeguard money and other valuables items and even earn interest. It allows the individuals to enjoy a lump sum in future in exchange for a series of savings made now.

**Micro insurance** is also a component of microfinance. Micro insurance is the provision of insurance services to low-income earners. Insurance seems to be a very important aspect of life. Individuals are exposed to risks in every activity of life in the form of natural calamities, illness, accidents etc. of which the poor individuals are more vulnerable. Some Microfinance institutions provide insurance services to their clients who are predominantly low income earners to protect them against vulnerability through the provision of savings services to build up resources that can help to secure them in terms of emergencies.

### Evolution of Microfinance in Ghana

Microfinance is not a new concept in Ghana. Traditionally, people used to borrow money from individuals to establish their businesses. Available evidence suggests that the first credit union in Africa was probably established in Northern Ghana in 1955 by the Canadian Catholic missionaries that were there at the time. However, 'susu', which is one of the current microfinance schemes in Ghana, is thought to have originated in Nigeria and spread to Ghana from the early 1900s. (Asiama, 2007) The PNDC Law 328 of 1991 allows the establishment of different types of non-bank financial institutions, including savings and loans companies, finance houses, and credit unions etc.

The microfinance sector has thrived and evolved into its current state, over the years, due to various financial sector policies and programmes undertaken by different governments since independence. Among these are:

- a) Provision of subsidized credits in the 1950s;
- b) Establishment of the Agricultural Development Bank in 1965 specifically to address the financial needs of the fisheries and agricultural sector;
- c) Establishment of Rural and Community Banks (RCBs), and the introduction of regulations such as commercial banks being required to set aside 20% of total portfolio, to promote lending to agriculture and small scale industries in the 1970s and early 1980s;
- d) Shifting from a restrictive financial sector regime to a liberalized regime in 1986;
- e) Promulgation of PNDC Law 328 in 1991 to allow the establishment of different categories of non-bank financial institutions, including savings and loans companies, and credit unions. (Asiama, 2007)

Currently, there are three broad types of microfinance institutions operating in Ghana. These include:

- Formal suppliers of microfinance (i.e. rural and community banks, savings and loans companies, commercial banks)
- Semi-formal suppliers of microfinance (i.e. credit unions, financial nongovernmental organizations (FNGOs), and cooperatives;
- Informal suppliers of microfinance (e.g. Susu collectors and clubs, rotating and accumulating savings and credit associations (ROSCAs and ASCAs), traders, moneylenders and other individuals).

In terms of the regulatory framework, rural and community banks are regulated under the Banking Act 2004 (Act 673), while the Savings and Loans Companies are currently regulated under the Non-Bank Financial Institutions (NBFI) Law 1993 (PNDC Law 328).

On the other hand, the regulatory framework for credit unions is now being prepared, and this would recognize their dual nature as cooperatives and financial institutions. The rest of the players such as FNGOs, ROSCAs, and ASCAs do not have legal and regulatory frameworks.

In terms of current policy programmes that affect the Microfinance sub-sector, a number of on-going projects can be cited. These include - the Financial Sector Improvement Project, Financial Sector Strategic Plan (FINSSP), the Rural Financial Services Project (RFSP), the United Nations Development Programme (UNDP) Microfinance Project, the Social Investment Fund (SIF), the Community Based Rural Development Programme (CBRDP), Rural Enterprise Project (REP), and Agricultural Services Investment Project (ASSIP).

### Microfinance and Development

Generally, microfinance include the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients. It includes loans, savings, insurance, transfer services and other financial products and services.

Indeed, empirical studies have shown that micro-finance helps very poor households to meet basic needs and protects against risks, and is thus associated with improvements in household economic welfare. Gender activists also argue that microfinance helps in empowering women by supporting women's economic participation and so promotes gender equity.

### Microfinance Products and Services

Microfinance Institutions provide different services. These services provided by microfinance institutions can be categorized into four broad different categories:

- a) **Financial intermediation** or the provision of financial products and services such as savings, credit, insurance, credit cards, and payment systems should not require ongoing subsidies.
- b) **Social intermediation** is the process of building human and social capital needed by sustainable financial intermediation for the poor. Subsidies should be eliminated but social intermediation may require subsidies for a longer period than financial intermediation.
- c) **Enterprise development** services or non financial services that assist micro entrepreneurs include skills development, business training, marketing and technology services, and subsector analysis. This may or may not require subsidies and this depends on the ability and willingness of the clients to pay for these services.

- d) **Social services or non financial services** that focus on advancing the welfare of micro entrepreneurs and this include education, health, nutrition, and literacy training. These social services are like to require ongoing subsidies and are always provided by donor supporting NGOs or the state (Bennett, 1997; Legerwwo, 1999)

### **Clients of Microfinance Institutions**

In Ghana, the clients of microfinance are predominantly women in both rural and urban centers. These women are engaged in activities such as farming, food processing, petty trading, service provision and street vending. There are also some few men who are also clients of the Microfinance Institutions. These men are also engaged in activities such as farming, repair of electronic gadgets; selling of provisions etc. these people are mostly low-income earners.

### **Regulatory Bodies for Microfinance Institution in Ghana**

Ghana's financial system has been broadly divided into three categories- formal, semi-formal and informal. The formal institutions are incorporated under the Companies Code 1963 and licensed by the Bank of Ghana (BOG) under the Banking Law, 1989, or the Financial Institutions (Non- Banking) Law, 1993. Commercial banks and rural banks are incorporated under Banking Law, while the Savings and Loans companies and Credit Unions are incorporated under the Non Banking Financial Institution (NBFI) law. The Credit Unions, however, are not regulated by the BOG, but by the Credit Union Association (CUA) which acts as a self regulatory apex body.

### **Bank of Ghana (BOG)**

The Bank of Ghana has a history of promoting financing of Micro, Small and Medium Enterprises (MSME) which began from the Credit Guarantee for Small Borrowers Scheme in 1969 that was administered through the Development Finance Department of the Bank.

The banking and non-banking financial sub-sectors are regulated by BOG, the central bank of Ghana. There was a revision in the legal framework governing the central bank that is the Bank of Ghana Act, 2002, giving enhanced autonomy to BOG in framing monetary policy, regulation and supervision of banking and non banking financial institutions. All banking companies in Ghana are governed by the Banking Law, 2004. Savings and Loans companies are governed by the rules framed under The Financial Institutions (Non-Banking) Law, 1993. So far there is no separate regulations setup for the Microfinance sector.

The present minimum capital requirement for Microfinance Institutions in Ghana is GH¢100,000. The Bank of Ghana (BoG) has said that due to several challenges in the microfinance sector, it will be increasing their minimum capital requirement to not less than GH¢500,000.

### **Ghana Association of Microfinance Companies**

The Ghana Association of Microfinance Companies (GAMC) is an umbrella association of companies providing microfinance services under the Tier-2 category of Microfinance Institutions operating in Ghana. Companies who are members of this association offer both lending and deposit products to their clients. The Association was established in 20th May 2011. The Association currently has over 628 members in all ten (10) Administrative Regions of Ghana. It is limited by guarantee. The association provides its members with the following services:

- Information dissemination services
- Capacity building
- Supervisory and monitoring services
- Advocacy and lobbying
- Resource mobilization

### **Ghana Microfinance Institute Network (GHAMFIN)**

GHAMFIN is an informal network of institutions and individuals that operate within Ghana's Microfinance Industry. This network evolved from the concern and an initiative which was promoted by a World Bank sponsored action research project, which sought to identify for wider application, innovative techniques of financial services delivery that had been successful in improving access of micro entrepreneurs to financial services.

The research project started with the profiling of three Ghanaian MFIs and later grew into an informal network of organizations interested in providing effective financial services to the poor. The informal group has now been formalized and registered as a company limited by guarantee, the Ghana Micro Finance Institutions Network (GHAMFIN). Its membership consists of 80 regulated and non-regulated microfinance institutions that together are serving over 60,000 clients. The members of GHAMFIN include institutions such as savings and loan institutions, NGOs, cooperatives unions, rural banks and traditional 'susu' savings clubs.

The main objective of GHAMFIN is to support and facilitate processes that help in addressing the constraints faced by its members. Various studies of the Ghanaian microfinance sector have identified these constraints and they include lack of access to on-lending funds, poor MFI staff skills, inappropriate financial technologies and inadequate operational strategies, absence of performance standards, codes of conduct, conflict resolution mechanisms and so on. These constraints affect Ghana, since the microfinance sector in this country is still young.

GHAMFIN has subsequently amended its constitution to have apex bodies form the GHAMFIN Council and the members of the apex bodies become members of GHAMFIN thus GHAMFIN becomes the first tier network of the apex bodies, which represent their individual members. In this regard GHAMFIN will speak as one voice for the microfinance industry.

## Research Methodology

The research population for this study consists of the management of Microfinance institutions in the Kumasi and customers of Microfinance institutions.

In the first stage, Ashanti region was selected out of the ten regions in Ghana by using convenience sampling method. Ashanti region was chosen because of its convenience to the study in terms of cost and time.

In the second stage, Kumasi was selected using convenience sampling method. Ten (10) Microfinance institutions and 80 customers were selected in Kumasi for the study.

Questionnaires were designed for the respondents to provide answers to it. The questionnaire comprised both open-ended and closed-ended questions. The open-ended questions allow respondents to use their own discretion to define a complex issue or concept by giving unlimited chance in answering. The closed-ended questions give the respondents a set of responses from which they chose the one which suite their understanding and thought of the question asked. The questionnaires were given to management of some selected Microfinance institutions in Kumasi and also some selected customers of Microfinance institutions to provide answers to them.

## Data Presentation and Analysis

Data collected from the research were analyzed, summarized and interpreted accordingly by the use of tables and charts. This was to make presentation clear and accurate for anybody to understand the interpretations. It was used to facilitate the understanding of complex numerical data.

### The Background MFIs

Ten (10) Microfinance Institutions were sampled for the study. It was found that all the ten (10) Microfinance Institutions were started in the 2000s.

Seven (7) out of the ten (10) Microfinance Institutions are companies, two (2) of them are partnerships and 1 (one) of them is a sole proprietorship organization.

Eight (8) of these Microfinance Institutions have more than one (1) branches whilst two (2) of them have only one (1) branch each.

### Services Provided by MFIs

All the 10 Microfinance institutions selected for the study indicated that they have more than one (1) service that they provide for their customers.

It was found that all the ten (10) Microfinance Institutions provided the following services to their customers:

- Savings ('susu')
- Loans
- Investment

The MFIs indicated that out of these services, savings ('susu') is the one which patronized by most customers.

### Number of Employees of MFIs

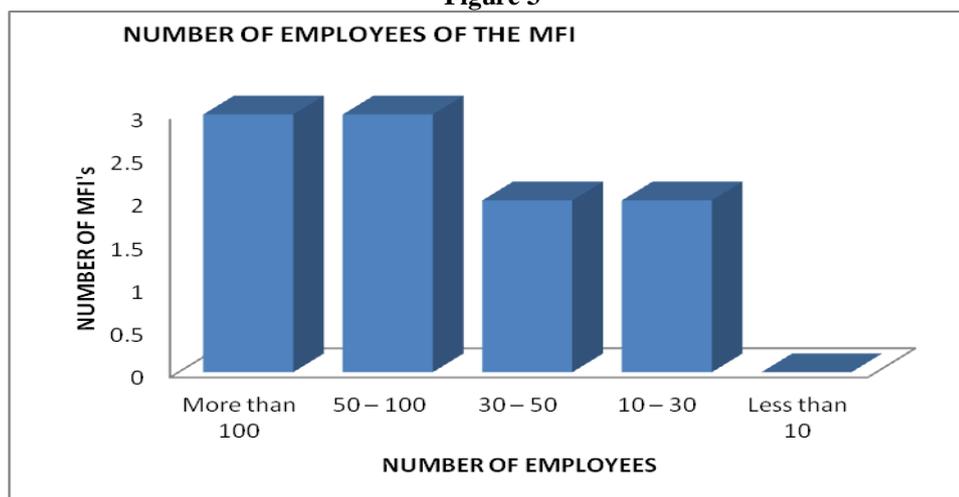
The table below illustrates the number of employees that the MFIs have.

**Table 4.3**

| Number of employees | Number of MFI's | Percentage % |
|---------------------|-----------------|--------------|
| More than 100       | 3               | 30           |
| 50 – 100            | 3               | 30           |
| 30 – 50             | 2               | 20           |
| 10 – 30             | 2               | 20           |
| Less than 10        | 0               | 0            |
| Total               | 10              | 100          |

Source: field survey, 2014

**Figure 3**



From the table 4.3 and figure 3 above, 3 of the MFI's representing 30% have more than 100 employees, 3 of the MFI's representing 30% have 50 to 100 employees, 2 of the MFI's representing 20% have 30 to 50 workers, 2

representing 20% of the MFI’s have 10 to 30 workers, and none of the MFI’s has less than 10 employees. Therefore it can be concluded the MFI’s offer employment opportunities to a lot of people in Ghana.

**The Customer Base of MFIs**

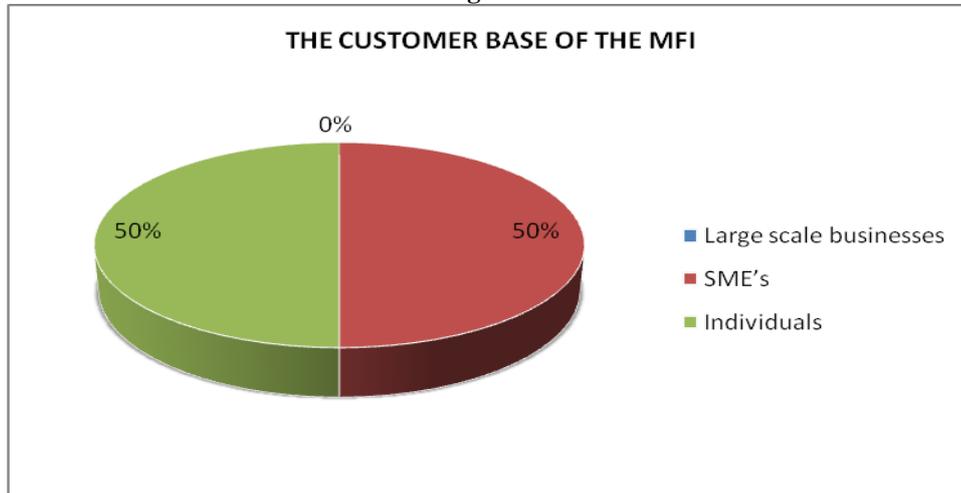
The table below gives the details of the customers of MFIs.

**Table 4.4**

| Service                | Number of MFI’s | Percentage % |
|------------------------|-----------------|--------------|
| Large scale businesses | 0               | 0            |
| SME’s                  | 5               | 50           |
| Individuals            | 5               | 50           |
| Total                  | 10              | 100          |

Source: field survey, 2014

**Figure 4**



From the table 4.4 and figure 4 above, 5 of the MFI’s representing 50% have SME’s as their customer base, 5 representing 50% of the MFI’s have individuals as their customer base, and none of the MFI’s has large scale businesses as their customer base. Therefore, it can be concluded that MFI’s are set up to provide financial aid to SME’s and individuals.

**Challenges of MFIs**

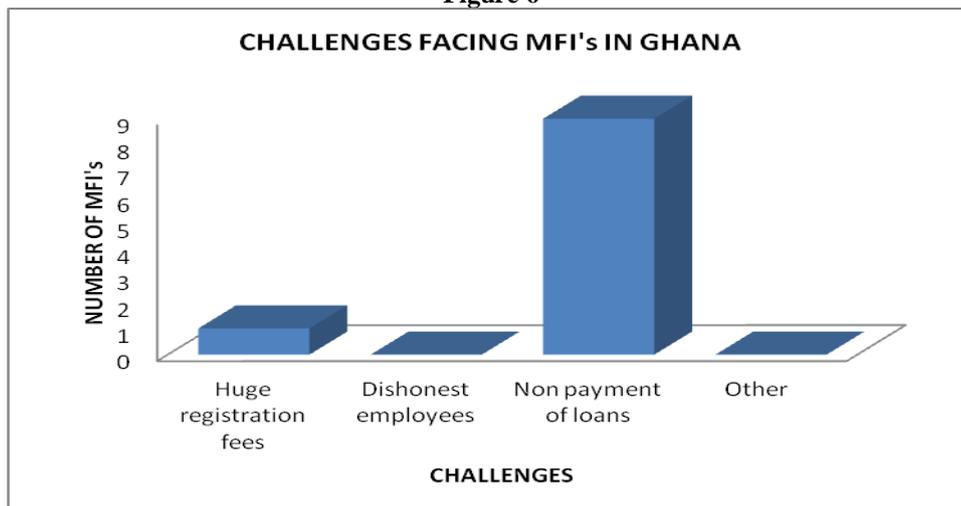
Challenges are inevitable to any business. Like any other business, MFIs also face certain challenges in their operations. The table below outlines the challenges that the selected Microfinance Institutions face in their operations.

**Table 4.6**

| Challenge              | Number of MFI | Percentage % |
|------------------------|---------------|--------------|
| Huge registration fees | 1             | 10           |
| Dishonest employees    | 0             | 0            |
| Nonpayment of loans    | 9             | 90           |
| Other                  | 0             | 0            |
| Total                  | 10            | 100          |

Source: field survey, 2014

**Figure 6**



From the table 4.6 and figure 6 above, 1 of the MFI’s representing 10% said the challenge they face in the industry is the problem of huge registration fees charged by the Bank of Ghana, none of the MFI’s said their challenge was dishonest employees, 9 of the respondents representing 90% said nonpayment of loans from customer is their challenge.

Therefore, it can be concluded that the biggest challenge facing MFI's in Ghana is customers who do not pay back the loans that they have taken.

### Background of Selected Customers

The background of the respondents is needed for a comprehensive view of the sample of the study, and to know if they fit into the category of the right respondents needed for the research. Eighty (80) customers of microfinance institutions in Kumasi were sampled for the study.

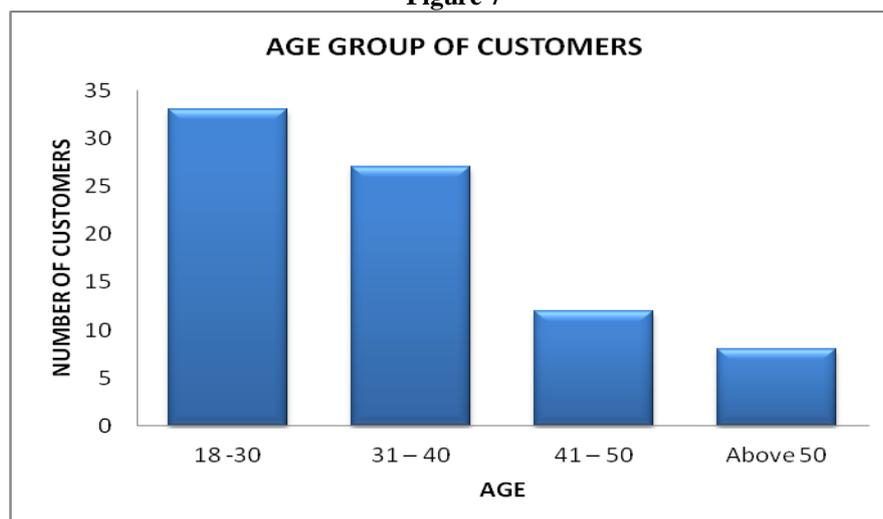
### Age Group of Customers of MFIs

**Table 4.7**

| Age      | Number of customers | Percentage% |
|----------|---------------------|-------------|
| 18 -30   | 33                  | 41          |
| 31 – 40  | 27                  | 34          |
| 41 – 50  | 12                  | 15          |
| Above 50 | 8                   | 10          |
| Total    | 80                  | 100         |

Source: field survey, 2014

**Figure 7**



From table 4.7 and figure 7 above, 33 of the total respondents representing 41% are between the ages of 18 to 30 years, 27 of the respondents representing 34% are between the ages of 31 to 40 years, 12 of the respondents representing 15% are between the ages of 41 to 50 years, 8 of the respondents representing 10% are above 50 years. This clearly shows that majority of the customers of Microfinance Institutions in Ghana are between the ages of 18 to 21.

### Gender of MFI Customers

The gender balance of the customers is shown in the table below.

**Table 4.8**

| Gender | Number of customers | Percentage % |
|--------|---------------------|--------------|
| Male   | 35                  | 44           |
| Female | 45                  | 56           |
| Total  | 80                  | 100          |

Source: field survey, 2014

From the table 4.8 above, it can be seen that 35 of the respondents out of the total respondents of 80 which represents 44% are males, and 45 of the respondents which represent 56% are females. Therefore, it can clearly be seen that majority of the customers of Microfinance Institutions in Ghana are females.

### Marital Status of MFI Customers

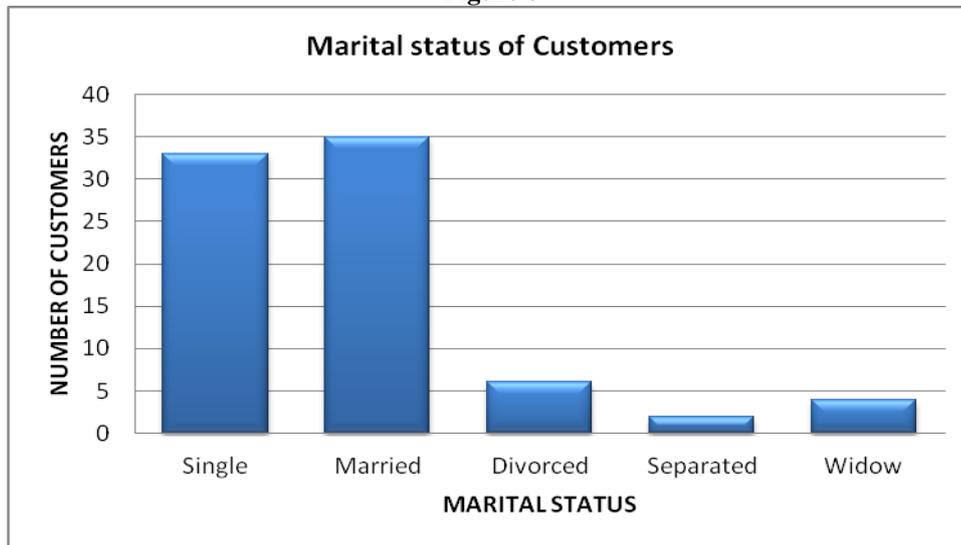
Customers who are married will obviously get financial support from their spouses unlike the customers who are not married. This means that those customers who are not married will depend solely on the MFI's for financial support.

**Table 4.9**

| Marital status | Number of customers | Percentage % |
|----------------|---------------------|--------------|
| Single         | 33                  | 41           |
| Married        | 35                  | 44           |
| Divorced       | 6                   | 7            |
| Separated      | 2                   | 3            |
| Widow          | 4                   | 5            |
| Total          | 80                  | 100          |

Source: field survey, 2014

Figure 8



From the table 4.9 and figure 9 above, it can be seen that 33 of the respondents representing 41% of the total respondents are single, 35 of the respondents which represents 44% of the total respondents are married, 6 of the respondents representing 7% are divorced, 2 of the respondents representing 3% are separated, and 4 of the respondents representing 5% are widows.

**Occupation of MFI Customers**

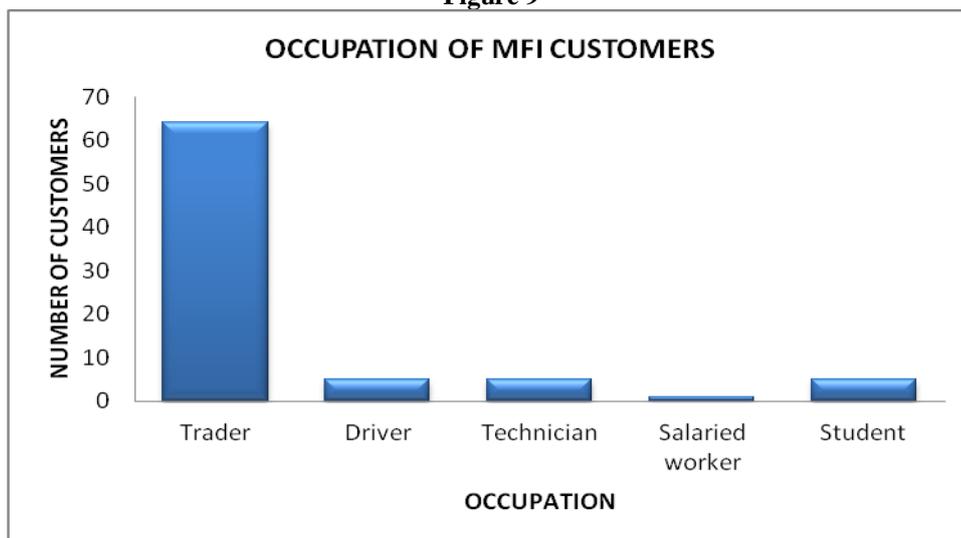
The customers of MFI's are known to be the poor who do not have access to the Banks. These data were to find out about the occupation of the MFI customer whether indeed the customers of the MFI's are the poor in the society.

Table 4.10

| Occupation      | Number of customers | Percentage % |
|-----------------|---------------------|--------------|
| Trader          | 64                  | 80           |
| Driver          | 5                   | 6            |
| Technician      | 5                   | 6            |
| Salaried worker | 1                   | 2            |
| Student         | 5                   | 6            |
| Total           | 80                  | 100          |

Source: field survey, 2014

Figure 9



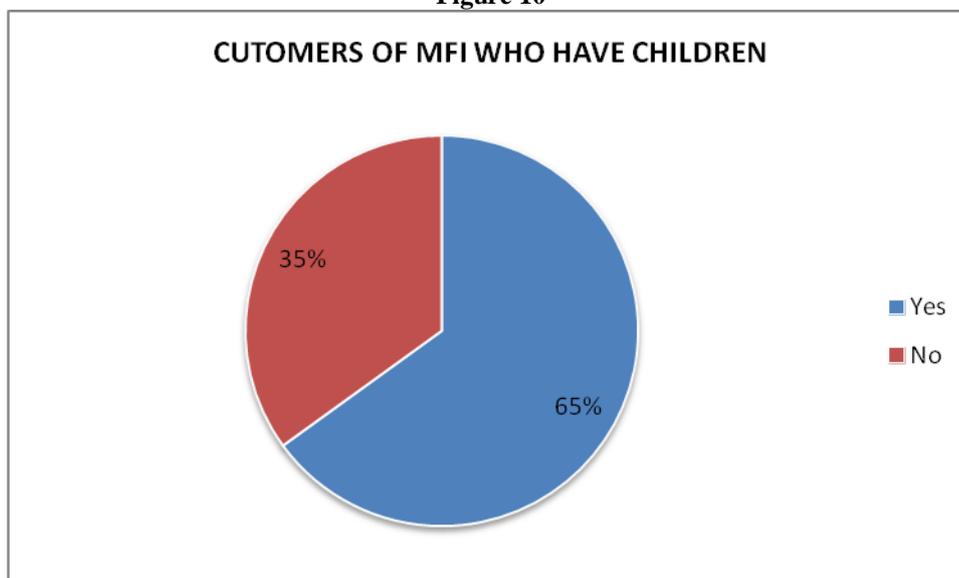
From the table 4.10 and figure 10 above, 64 out of the 80 respondents representing 80% are traders, 5 of the respondents representing 6% are drivers, 5 of the respondents representing 6% are technicians, 1 of the respondent representing 2% is a salaried worker, and 5 of the respondents representing 6% are students. This clearly indicates that the customers of MFI's are mostly traders.

Table 4.11

| Option | Number of customers | Percentage % |
|--------|---------------------|--------------|
| Yes    | 52                  | 65           |
| No     | 28                  | 35           |
| Total  | 80                  | 100          |

Source: field survey, 2014

Figure 10



From the table 4.12 and figure 12 above, it was realized that 52 out of the 80 respondents which represent 65 % said they have children and 28 of the respondents representing 35% said they have no children. Therefore, this show that majority of customers of MFI’s in Ghana have children to take care of.

**Customers of MFI who have children in School**

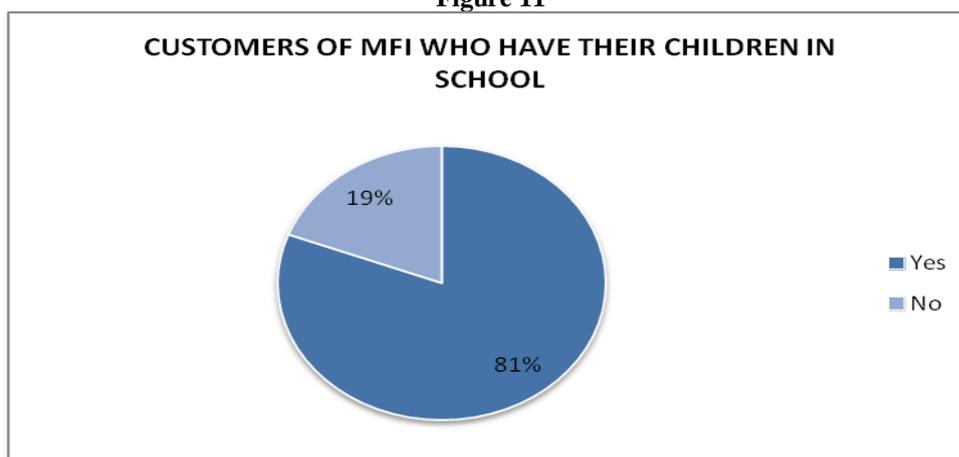
The main aim for this section is to find out whether the children of the customers of the MFI’s go to school. This means that the children will depend on these customers for school fees and other needs. The table below shows the response of the customers.

Table 4.12

| Option | Number of customers | Percentage % |
|--------|---------------------|--------------|
| Yes    | 42                  | 81           |
| No     | 10                  | 19           |
| Total  | 52                  | 100          |

Source: field survey, 2014

Figure 11



From the table 4.12 and figure 12 above, it can be seen that 42 out of the 52 customers who have children which represents 81% respondent yes meaning their children go to school. 10 out of the 52 customers who have children which represents 19% responded No meaning that their children do not go to school. The results show that majority of the customers who have children have their children in school.

**How long Customers have worked with MFI**

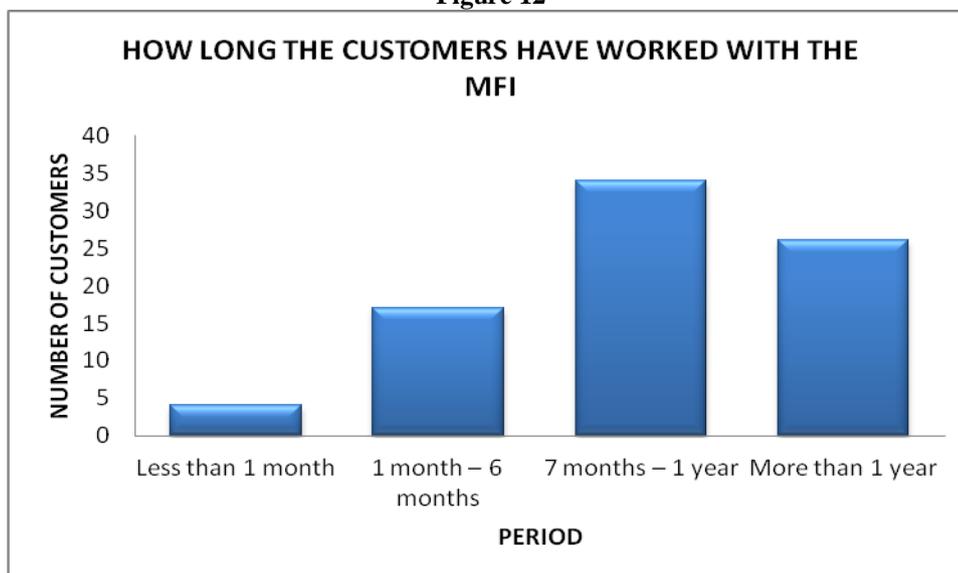
The period that the customers have worked with the MFI is very important in determining how long the customer has benefitted from the MFI. This section tries to find out about how long the customers have worked with the MFI.

Table 4.13

| Period             | Number of customers | Percentage % |
|--------------------|---------------------|--------------|
| Less than 1 month  | 4                   | 5            |
| 1 month – 6 months | 17                  | 21           |
| 7 months – 1 year  | 34                  | 42           |
| More than 1 year   | 26                  | 32           |
| Total              | 80                  | 100          |

Source: field survey, 2014

Figure 12



From the table 4.13 and figure 13 above, 4 out of 80 respondents representing 5% have worked the MFI for less than 1 month, 17 respondents representing 21% have worked with the MFI for 1-6 months, 34 respondents representing 42% have worked with the MFI from 7months to 1 year, 36 of the respondents representing 32% have worked with the MFI for more than one year. It can be seen from the information above that majority of the customers of the MFI’s have worked with the MFI for a period of 7 months to 1 year.

**The Type of Account Customers have with MFI**

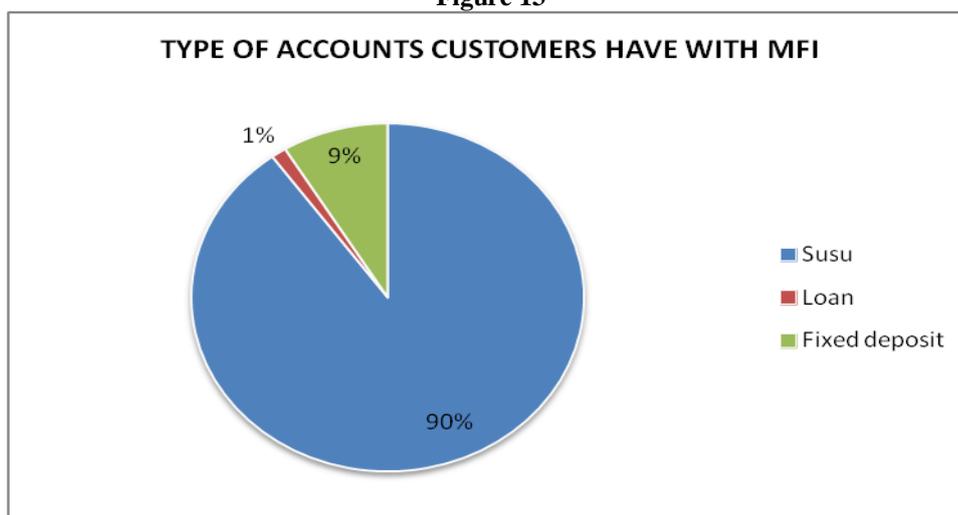
MFI’s have different accounts that are available to their customers. The purpose of these details is to find out which of the accounts of the MFI’s that they are most interested in.

Table 4.14

| Type of product | Number of customers | Percentage % |
|-----------------|---------------------|--------------|
| Susu            | 72                  | 90           |
| Loans           | 1                   | 1            |
| Fixed deposit   | 7                   | 9            |
| Total           | 80                  | 100          |

Source: field survey, 2014

Figure 13



From the table 4.14 and figure 14 above, 72 out of 80 customers of the total respondents representing 90% operate a ‘Susu’ accounts with the MFI, 1 of the respondents representing 1% operate a loan account, 7 respondents are operating a Fixed deposit account with the MFI.

**Have Customers taken loans from MFI?**

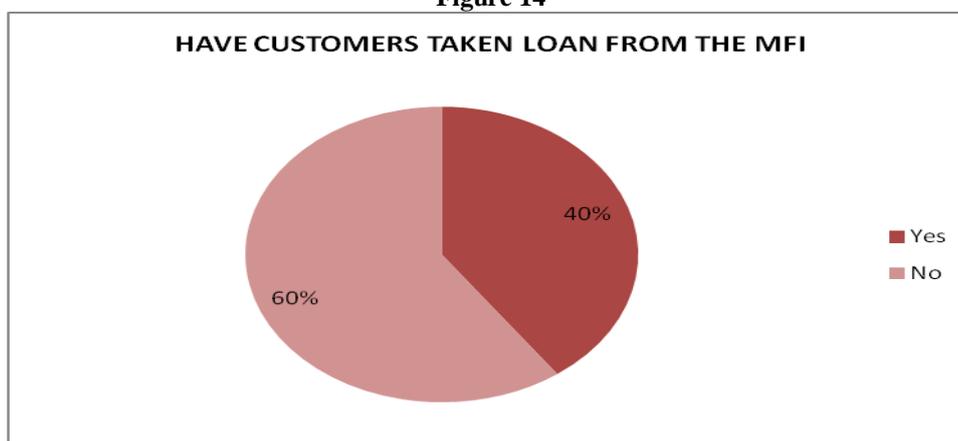
Most people especially the poor who cannot access loan from the banks because they do not have the collateral to guarantee their loans rely on the MFI’s for loan. This compels most of the people to open an account with the MFI’s. This research therefore is to find out whether the customers take loans from these MFI’s.

Table 4.15

| Option | Number of customers | Percentage % |
|--------|---------------------|--------------|
| Yes    | 28                  | 12           |
| No     | 42                  | 88           |
| Total  | 80                  | 100          |

Source: field survey, 2014

Figure 14



From the table 4.15 and figure 15 above, 28 out of the total of 80 respondents representing 40% responded Yes and 42 of the respondents representing 60% responded No. this means that 40% of the customers have not taken loan from the MFI and 60% of the customers have taken loan from the MFI. This shows that most customers do not take loans from the MFI's.

**Reasons for taking loans**

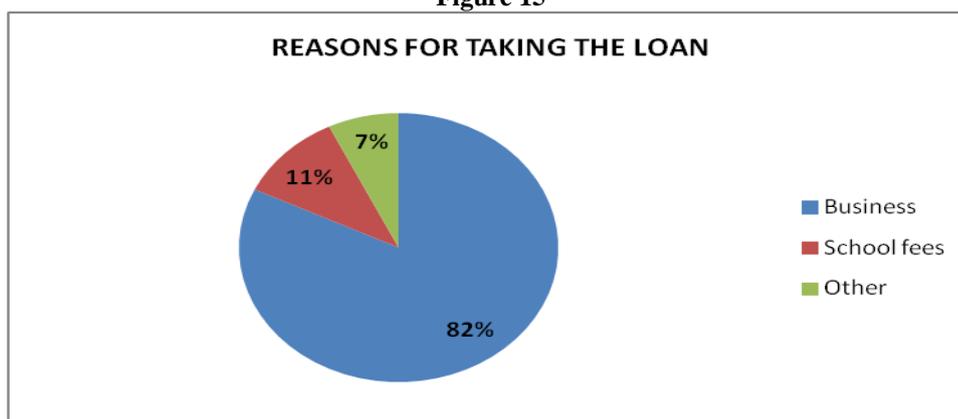
Customers take loans from the MFI's for different purposes. Some take the loan to expand their businesses, others take the loan to pay school fees and some also take the loan for other purposes. The research then tries to find out the reasons why customers take loan from the MFI.

Table 4.16

| Options     | Number of customers | Percentage % |
|-------------|---------------------|--------------|
| Business    | 23                  | 82           |
| School fees | 3                   | 11           |
| Other       | 2                   | 7            |
| Total       | 28                  | 100          |

Source: field survey, 2014

Figure 15



From the table 4.16 and figure 16 above, 23 representing 82% of the respondents who have taken loans from the MFI use the to do business, 3 of the respondents representing 11% used the loan to pay school fees, 2 of the respondents representing 7% used the loan for other purposes. It can clearly be seen that most of the customers who take loan from the MFI use it to do business.

**Interest Rate on loans**

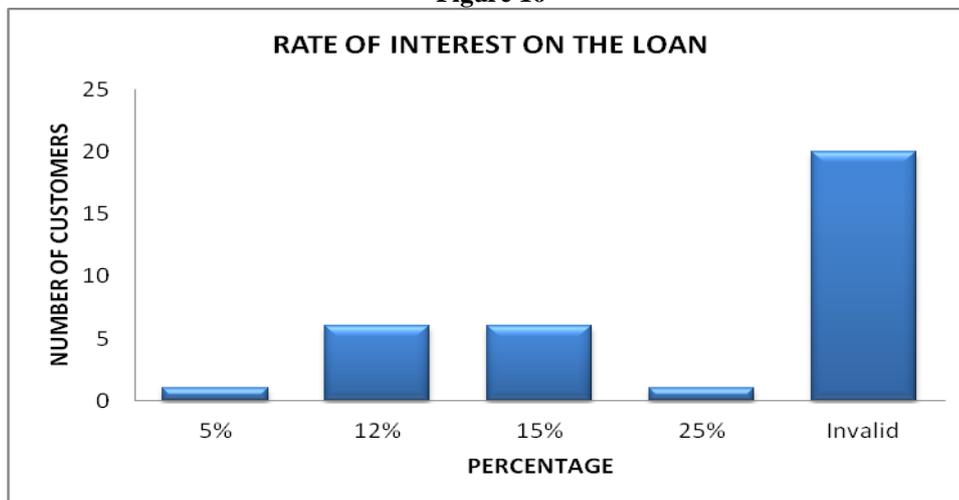
The huge interest on the loans from the banks is part of the reasons why customers do not want to take loans from the traditional banks. The purpose of this research is to find out whether the interest rate on the loans from the MFI's is favourable to customers as compared to that of the traditional banks.

Table 4.17

| Interest rate | Number of customers | Percentage % |
|---------------|---------------------|--------------|
| 5%            | 1                   | 3            |
| 12%           | 5                   | 15           |
| 15%           | 6                   | 17           |
| 25%           | 1                   | 3            |
| Invalid       | 21                  | 62           |
| Total         | 34                  | 100          |

Source: field survey, 2014

Figure 16



From the table 4.17 and figure 17 above, the interest rate on the loan of 1 customer representing 3% was 5%, the interest on the loan of 5 customers representing 15% was 12%, the interest on the loan of 6 customers representing 17% was 15%, the interest on the loan of 1 customer representing 3% was 25%, and 21 of the customers representing 62% did not know the interest rate on their loan.

**Were loans able to satisfy the intention of taking them**

Customers of MFI’s take loans in order to satisfy a specific need. This section is to find out whether customers are able to achieve what they needed the loan for. The table below gives details of how customers responded to the question ‘Did the loan satisfy you financial needs?’

Table 4.18

| Option | Number of customers | Percentage % |
|--------|---------------------|--------------|
| Yes    | 28                  | 100          |
| No     | 0                   | 0            |
| Total  | 28                  | 100          |

Source: field survey, 2014

From the table 4.18, it can be seen that 28 of the respondents representing 100% said that the loan they took was able to satisfy their financial needs. This clearly shows that all customers who take loans from the MFI’s are able to meet their financial needs.

**Have the lives of customers improves after taking the loans?**

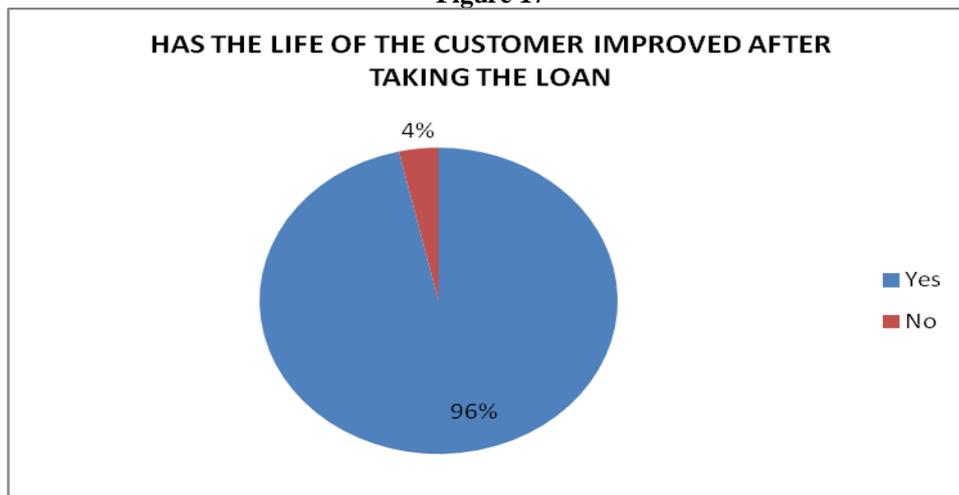
Customers take loans from the MFI’s with the hope of helping them to improve upon their standards of living. The purpose of this section is to find out whether the lives of the customers improve after they take loans from the MFI’s.

Table 4.19

| Option | Number of customers | Percentage % |
|--------|---------------------|--------------|
| Yes    | 27                  | 96           |
| No     | 1                   | 4            |
| Total  | 28                  | 100          |

Source: field survey, 2014

Figure 17



From the table 4.19 and figure 17 above, 27 out of the total number of 28 of the respondents who have taken loan from the MFI responded Yes, meaning their life have improved after taking the loan, and 1 respondent responded No, meaning the life has not improved after taking the loan. It can therefore be concluded that, the lives of customers improve after taking a loan from the MFI’s.

### Have customers had problems with MFIs?

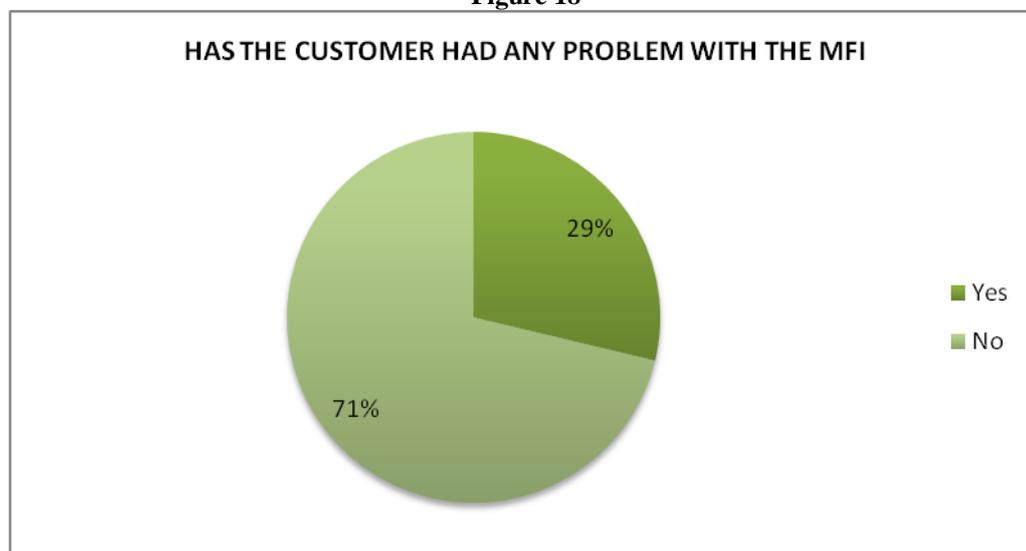
The establishment of MFI's in Ghana is to assist individuals and small businesses in terms of financing. The aim of this section is to know whether customers have had any problems with the activities of the MFI.

**Table 4.20**

| Option | Number of customers | Percentage % |
|--------|---------------------|--------------|
| Yes    | 23                  | 29           |
| No     | 57                  | 71           |
| Total  | 80                  | 100          |

Source: field survey, 2014

**Figure 18**



From the table 4.20 and figure 18 above, 23 of the respondents representing 29% responded Yes meaning that they have had problems with the MFI, 57% of the respondents representing 71% responded No, meaning that they have not had any problems with the MFI.

### Problems Customers encounter with MFIs

Customers sometimes face some problems with their MFIs. This section sought to identify the problems the customers have had with their MFI. The study identified some problems that the customers have had with the MFI. The following are the problems that were identified during the study;

- The MFI closed down
- The MFI was unable to give them loan as promised
- Customers were unable to withdraw their money
- The MFI provide poor service

**Table 4.21**

| Problem                  | Number of customers | Percentage % |
|--------------------------|---------------------|--------------|
| Closed down              | 14                  | 61           |
| Unable to give loan      | 5                   | 22           |
| Unable to withdraw money | 3                   | 13           |
| Poor service             | 1                   | 4            |
| Total                    | 23                  | 100          |

Source: field survey, 2014

From the table 4.21, 14 of the customers who have had problems with the MFI representing 61% said the MFI closed down with their monies, 5 of the customers representing 22% said the MFI was unable to give them loan as they were promised, 3 of the customers representing 13% said that they were unable to withdraw their savings, and 1 of the respondents representing 4% said the MFI provides poor service.

### Have MFI benefitted Customers?

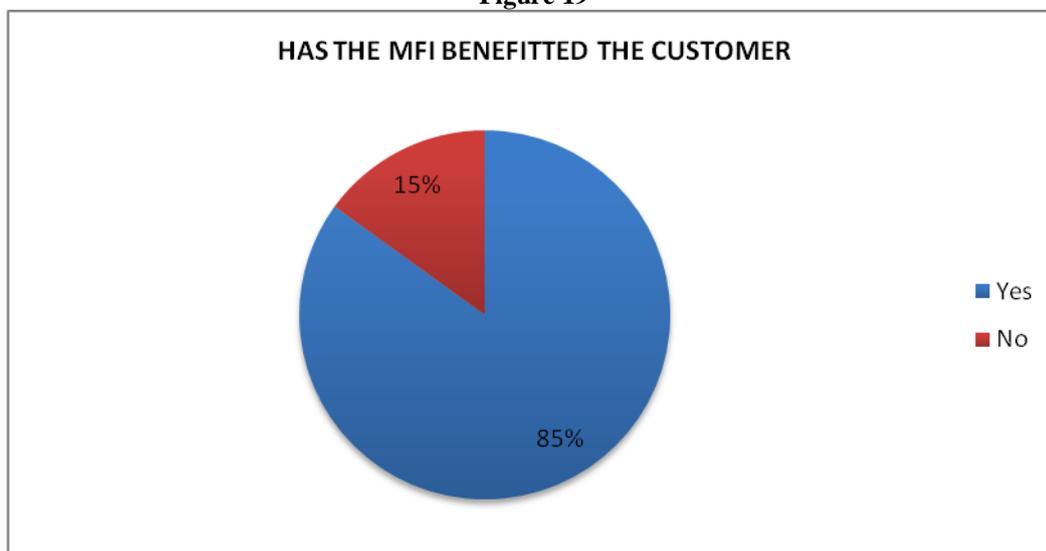
The aim of the MFI's is to provide financial assistance to small businesses and individuals who do not have access to the banks. These data sought to find out whether customers of the MFI's have benefitted from the services of these MFI's.

**Table 4.22**

| Option | Number of customers | Percentage % |
|--------|---------------------|--------------|
| Yes    | 68                  | 85           |
| No     | 12                  | 15           |
| Total  | 80                  | 100          |

Source: field survey, 2014

Figure 19



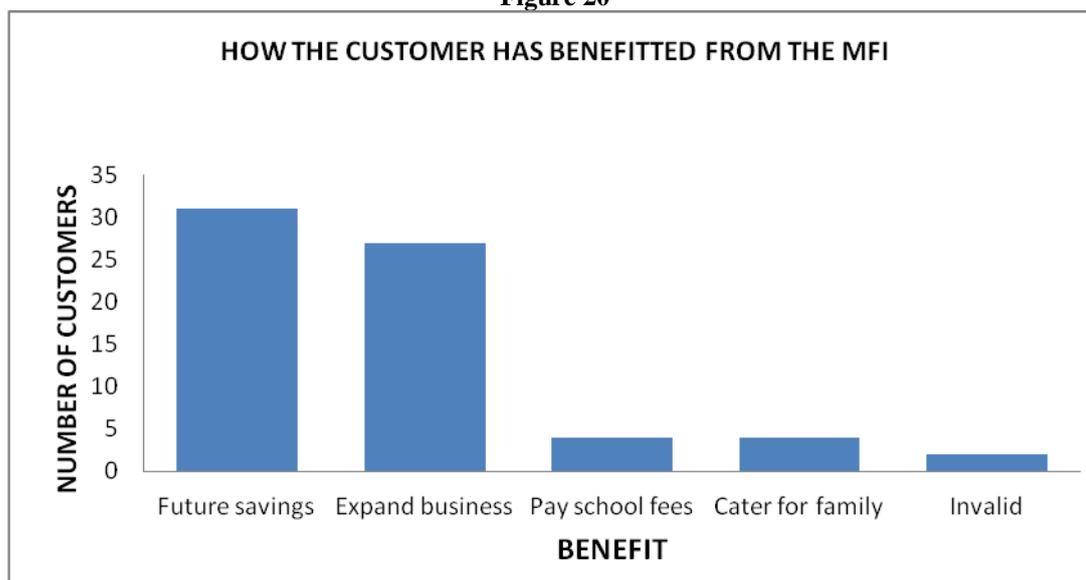
From the table 4.22 and figure 19 above, 68 of the total respondents representing 85% responded Yes, meaning that they have benefitted from the MFI's, 12 of the respondents representing 15% responded No, meaning that they have not benefitted from the MFI's. Therefore, it can be concluded that the MFI has benefitted most of their customers. The research showed that 97% of the customers who answered they have benefitted from the MFIs one way or the other. Some customers have been able to save for the future, some have been able to expand their businesses, some have been able to pay their children's school fees and others also have been able to take care of their family. The table below shows how customers have benefitted from the operations of the MFIs.

Table 4.23

| Benefit          | Number of customers | Percentage % |
|------------------|---------------------|--------------|
| Future savings   | 31                  | 45           |
| Expand business  | 27                  | 40           |
| Pay school fees  | 4                   | 6            |
| Cater for family | 4                   | 6            |
| Invalid          | 2                   | 3            |
| Total            | 68                  | 100          |

Source: field survey, 2014

Figure 20



From the table 4.23 and figure 20 above, 31 of the customers who have benefitted from the MFI representing 45% said the MFI has helped them to save for the future, 27 of the customers representing 40% said the MFI has helped them to expand their businesses, 4 of the customers representing 6% said the MFI has helped them to Pay their children's school fees, 4 of the customers representing 6% said the MFI has helped them to cater for their family, 2 representing 3 percent were invalid. The results clearly show that the MFIs have helped its customers to save for the future and also to expand their businesses.

**Findings**

The main aim of the study was to find out why there are a lot of Microfinance institutions in Ghana and their impact on the economy of Ghana. Kumasi was chosen as a case study. Also, the study sought to find out about the contribution of Microfinance companies to the development of small business, how the activities of microfinance businesses are

regulated and people's perception about Microfinance in Ghana. After a careful analysis of the data collected for the study the following are the findings.

1. The Microfinance Institutions have had positive impact on the economy by reducing the rate of unemployment. According to the research findings, majority of the Microfinance companies in Ghana have more than fifty (50) employees. The research also showed that Microfinance Companies with the least employees have more than ten (10) employees. This clearly shows that the Microfinance Institutions absorb a lot of the labour force in the country.
2. It was also found out that majority of the customers of Microfinance companies have children who depend on them. Their savings with the Microfinance companies have helped them to take care of their children. Some customers took loans from these Microfinance companies to pay for their children's school fees.
3. The findings from the study also showed that customers have benefitted a lot from the activities of the Microfinance companies. It was found that the individuals who do not have access to the traditional banks due to their low income have been able to save for the future with the Microfinance institutions. Also, others have been able to take care of their family, expand their businesses.
4. The study also sought to find out the contribution of Microfinance companies to the development of small businesses in Ghana. According to the findings from the study, the customers of the Microfinance companies are mostly traders. These traders indicated that the Microfinance companies have helped them to expand their businesses by providing them with small loans. They also save the little they get with the Microfinance companies and reinvest them into their businesses.
5. All Microfinance Institutions are regulated by the Bank of Ghana. These Microfinance Institutions belong to associations like the Ghana Association of Microfinance Companies (GAMC) who regulate the activities of these companies.
6. The study also revealed that some customers have problems with the Microfinance Institutions. Some customers have lost their monies to the Microfinance companies due to the fact that these companies have closed down because they went bankrupt. Some customers also were not given loans as promised by the Microfinance Institutions. Other customers have also not been able to withdraw their savings from their accounts. Some Microfinance institutions have also been accused of providing poor services.
7. The Microfinance Institutions also face some challenges in their activities. The biggest challenge that these MFIs face issue of repayment of loans. They indicated that some customers do not pay back their loan after they have taken them. This makes it difficult for them to continue to give loans to other customers who need the loan.

## Conclusions

The research which was undertaken on the proliferation of Microfinance companies in Ghana and its impact on the country's economy reveals that Microfinance Institutions have a positive impact on the economy of Ghana even though there have been some problems with their activities. Unemployment has been a major challenge for the government of Ghana over the years but has been reduced by the operations of Microfinance Institutions.

The Microfinance Institutions have helped in the area of mobilizing savings through their saving schemes that has made savings more accessible various individuals and small businesses. They have enhanced the savings habit of low income earners who did not have access to the traditional banks and have offered them the opportunity to save. This has helped them to raise capital for their businesses.

Microfinance Institutions have also provided credit facilities to small businesses who do not qualify to take loans from the traditional banks. These small businesses have been able to expand their businesses with the loans they receive from the Microfinance Institutions. Others have also been able to establish new businesses with the help of Microfinance Institutions.

Notwithstanding the positive impact of Microfinance Institutions in Ghana, some people have negative perception about MFI's in Ghana. This is so because some Microfinance companies have gone bankrupt and closed down due to bad management.

The MFIs are also facing a big challenge which can derail the efforts of the MFIs in granting loans. The challenge is the issue of customers' inability to pay back their loan. This affects the activities of the Microfinance companies. In spite of these challenges, MFIs the research clearly show that Microfinance companies have had a positive impact on the economy of Ghana.

## Recommendations

In view of the findings and conclusions from the study the following recommendations are provided to help improve the services of the MFIs so that they can continue to contribute to the economy of Ghana.

1. The MFIs should make sure that they give loans to people who are capable of paying back the loans. The MFIs can do this by researching into the businesses of their customers to see if the returns from their business are enough to pay back the loan.
2. The MFIs should organize training for their customers on how to manage their businesses and their finances as well. This will help to reduce the rate of defaults.
3. The regulatory bodies like the Bank of Ghana and the Microfinance associations should organize training programmes for the operators of Microfinance companies on how to manage their companies so that they do not go bankrupt.
4. The Bank of Ghana should increase the minimum reserve capital of the Microfinance Institutions in Ghana. This will ensure that only Microfinance Institutions with good financial standings will be established. This will ensure that customers can get their savings repaid should any MFI go burst.

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