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PERFORMANCE EVALUATION OF THE NATIONAL BOARD FOR SMALL SCALE INDUSTRIES MICROCREDIT SCHEMES IN THE GREATER ACCRA REGION

BY

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(SB/MFN/12/0005)

DISSERTATION SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE OF THE SCHOOL OF BUSINESS, UNIVERSITY OF CAPE COAST IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR AWARD OF MASTER OF BUSINESS ADMINISTRATION DEGREE IN FINANCE.

APRIL, 2014

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DECLARATION

Candidate's Declaration

I hereby declare that this dissertation is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Name: **AKWASI AFRIYIE**

Signature:…………………… Date:……………………….

Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with guidelines on supervision of dissertation laid down by the University of Cape Coast.

Supervisor's Name: **MR. ANORKYE ADAM**

Signature:……………………… Date:…………………………….

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ABSTRACT

The inability and challenge faced by the micro and small scale enterprises (MSEs) to obtain institutional credit to support their operations prompted the National Board for Small Scale Industries (NBSSI) to institute microcredit schemes to supply credits to support the MSEs in Ghana.

The objective of this study was to evaluate the performance of the NBSSI microcredit programme. An explorative case study approach was employed using secondary data, being reports produced on the schemes operations from the period of 2005 to 2012. The data were grouped and analyzed under selected ratios used by the microfinance industry, with the assistance of a data analysis tool, Microsoft Excel 2010, and the results represented in the form of graphs and tables.

It was established from the study that, the schemes suffers from, inadequate loanable funds; have high default rate; highly exposed to credit risk; generates low income (interests and service) from its operation; deepens greatly on subsidies to support its operations; and lacks basic efficient operating policies and management practices.

To improve upon the performance of the scheme, it was recommended that, the Legislative Instrument (L.I.) establishing the NBSSI be amended to empower the Board to source commercial loanable funds to boost it portfolios; must shift from individual lending to group base lending; price it loans commercially; involve its district officers (BACs) in the loan monitoring; avoid solely depending on external subsidies to support its operations; and must adopt efficient operating policies and practices to reduce portfolio risks and safeguard the schemes.

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DEDICATION

I dedicate this piece of work to my family and the Sunday school children of St. Mark Methodist Church, Darkoman-Accra.

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TABLE OF CONTENTS

DECLARATION	i
ABSTRACT	ii
ACKNOWLEDGEMENT	iii
DEDICATION	iv
TABLE OF CONTENTS	v
LIST OF FIGURE	viii
CHAPTER ONE	1
INTRODUCTION	1
Background to the study	1
Statement of the research problem	4
Objectives of the study	6
Research Questions	6
Significance of the study	6
Scope and limitations of the study	7
Organisation of Study	8
CHAPTER TWO	10
LITERATURE REVIEW	10
Introduction	10
Theoretical review	10
The concept and definition of microfinance	10
Characteristics of microfinance	13
Models of microfinance lending	16
Solidarity group	17
Village banking	18

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University of Cape Coast https://ir.ucc.edu.gh/xmlui

Grameen model 18

Individual model 19

Classification of institutions providing microfinance 20

Informal institutions 21

Semiformal institutions 22

Formal institutions 24

Theories of microfinance – the institutional versus welfare approach 26

Performance measurement of microfinance institution 29

Asset/liability management ratios 35

Portfolio quality ratios 37

Efficiency and productivity ratios 38

Relevance and limitations of ratios 40

Trend analysis 40

Empirical review 41

National Board for Small Scale Industries microcredit schemes being operated in Greater Accra 46

Summary 49

CHAPTER THREE 51

METHODOLOGY OF THE STUDY 51

Introduction 51

Study area 51

Research design 52

Selection of case study 52

Sources and types of data collected 53

Analytical approach, tools used and data presentation 53

Digitized by Sam Jonah Library

University of Cape Coast https://ir.ucc.edu.gh/xmlui

Selected benchmarks of the microfinance industry 54

CHAPTER FOUR 57

PRESENTATION AND DISCUSSION OF RESULTS 57

Introduction 57

Sustainability performance of NBSSI microcredit programme 57

Asset/liability management analysis of the schemes 62

Portfolio quality performance of NBSSI microcredit schemes 66

Efficiency and productivity performance of NBSSI microcredit programme 69

CHAPTER FIVE 74

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS 74

Introduction 74

Summary of findings 74

Conclusion 76

Recommendations 77

Limitations of the study and suggestions for future research 78

REFERENCES 80

Appendix 1 – Data set analysis sheet (1) 89

Appendix 2 – Data set analysis sheet (2) 91

Appendix 3 – Interest rates for data adjustments 93

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University of Cape Coast https://ir.ucc.edu.gh/xmlui

LIST OF TABLES

Table 1: Microfinance sustainability and profitability performance assessment ratios 35

Table 2: Microfinance assets and liability performance assessment ratios 36

Table 3: Microfinance portfolio quality performance assessment ratios 38

Table 4: Microfinance efficiency and productivity performance assessment ratios 39

Table 5: Microfinance operations performance benchmarks 55

Table 6: NBSSI microcredit portfolio quality Performance 67

LIST OF FIGURE

Figure 1: operational self sufficiency of the Schemes 58

Figure 2: Financial self sufficiency of the schemes 60

Figure 3: Yield on gross portfolio 63

Figure 4: Total loan portfolio to total assets 65

Figure 5: Operating expenses 70

Figure 6: Borrowers per loan officer 71

Figure 7: Average loans disbursed 72

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CHAPTER ONE

INTRODUCTION

Background to the study

Achievements in industrialisation by developed countries today can be traced to the very humble beginnings of the micro and small scale enterprises (MSEs) (Stokes, 1995). They are recognised as the pivot for economic growth as they serve as catalyst and foundation for agricultural and industrial developments (Budusmith-Otoo, 2005), promote effective resource utilization (Obamuyi, 2007) and an avenue for creating employment for the economic empowerment of the people. According to Kayanula and Quartey (2000) the MSEs employ about 22 percent of the adult population in developing countries. In Ethiopia, a total of 2,731 small scale manufacturing industries employ about 739,898 people (ILO, 2003).

In spite of the numerous economic advantages of the sector, the MSEs continue to face myriad of challenges in their operations. It is upheld that one of the leading causes of business failure among the small scale enterprises is insufficient start-up and working capital (United States Small Business Administration, 1989). The second quarter of the 2011, Ghana Business Barometer Index (BBI) indicated inadequate credit and high interest rates charged by financial institutions on loans as the two topmost challenges hindering the growth of businesses in Ghana (Ablordepey,2011). It can be concluded that the crucial element for the

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successful operation of small scale enterprises is finance. Ghana's industrial development, just as the developed economies, hinges on its present micro and small scale enterprises being supported by sustainable financial institutions which offer adequate loans at favourable terms and interest rates.

Ghana, like other developing countries recognizing the importance of the micro and small enterprises (MSEs) and the need to support the growth and development of the sector promulgated the NBSSI Act 1981, Act 434, to establish the National Board for Small Scale Industries (NBSSI). The focus of the Board is to serve as the apex body to champion the development and promote the growth of small scale enterprises in the country.

The NBSSI has its Head Office in Accra, with branches in all the regional capitals and Business Advisory Centres (BACs) in 124 district capitals (NBSSI annual report, 2012). The Board provides financial and non-financial services to its clients (NBSSI newsletter, 1991). Their services to the micro and small businesses sector include granting of credit or facilitating their access to credit, entrepreneurial trainings as well as creating enabling avenues to enhance the opportunities for MSEs to grow their businesses (Ministry of Trade, Science and Technology, 1989).

Based on the Act 434 establishing the NBSSI, the objectives guiding the operations of the Board are to:

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- Contribute to the creation of an enabling environment for small-scale enterprise development.
- Contribute to the development of an enterprise culture in Ghana.
- Facilitate access to credit for small-scale enterprises.
- Provide non-financial support for sustainable small-scale enterprises development.
- Strengthen sector associations within MSEs Division.

The main activities of the Board fall into two categories. The first is non-financial services; under which the Board provides educational, counseling, advisory and facilitating services to micro and small enterprises. The Business Advisory Centres (BAC) of the Board carry out this activity. The BAC is the extension office of the NBSSI where all relevant information, training and guidance that go to make the entrepreneur competent, confident and successful are provided.

The second category which is the focus of this study is the financial services, which include extending credit through its loan schemes to entrepreneurs for both working capital and the acquisition of fixed assets. The Board only grants short term loans which span between twelve months and twenty-four months. Interest rates of between 20% and 21.5% as at the time of this study are charged on loans granted by the Board and repayments are by monthly installments to ease the burden of loan servicing. Borrowers are usually granted between a two to four months grace period. Personal guarantors are accepted as security since small-

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scale entrepreneurs do not usually have collateral security. Beneficiaries are also encouraged to open accounts with the banks and to transact their business formally. Loan repayments, especially, must be made also through the banks so that they get acquainted with the banking culture.

The Board currently operates the following credit schemes for small scale enterprises, Programme of Action to Mitigate the Social Cost of Adjustments (PAMSCAD) Credit Scheme, Revolving Fund Loan Scheme and NBSSI-Microcredit And Small Loan Centre (MASLOC) Credit Scheme. The Financial service is precious to the Board for the development of entrepreneurship in Ghana.

Statement of the research problem

Act 434 of 1981 established the NBSSI among other functions, to promote the development of micro and small scale enterprises (MSEs) in Ghana. The Board has since 1989 been offering financial assistance through established microcredit schemes to resource the micro and small enterprises with the principal objective of helping them to expand their operations, improve and increase their production capacity (NBSSI newsletter, 1991; Okoh & Ping, 2000). The schemes are to provide short term debt finance with no collateral requirement, at low interest rates and on flexible repayment terms to support the growth and development of the micro and small scale businesses in Ghana (Budusmith-Otoo, 2005). The Board in the discharge of this function has catered for a sizeable number of

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clients nationwide who are engaged in a variety of small business activities.

Several studies conducted into the Board's microcredit schemes have suggested that they have not been effective in the realization of it objective of supplying credit to promote and develop the micro and small scale enterprise sector in Ghana (Okoh & Ping, 2000; Bhasin & Akpalu, 2001; Steel & Andah, 2003; Asiama & Osei, 2007). However, all the studies so far into the Board's programme have focused mainly and concluded base on impact assessment of how the credits granted by the Board have affected the operations and performances of micro and small businesses. They have on the other hand failed to examine the real operating performance and the survivability of the programme itself in ensuring that it is capable of offering a continuous support to the numerous MSEs in the country.

Meanwhile a sustained and viable microfinance institution with an efficient and effective microcredit schemes and programme is considered the panacea to the critical financial challenges faced by the micro and small businesses. It takes an institution of this pedigree to reach out to many micro and small enterprises with continued loan products.

The objective of the study is to examine the operational performance (sustainability, quality of portfolio, management of assets and liabilities, and efficiency) of the microcredit programme of the National Board for Small Scale Industries in the Greater Accra, to be able to come

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out with the appropriate interventions needed to sustained and improved upon the schemes and their operations.

Objectives of the study

The main objective of this study is to evaluate the performance of the National Board Small Scale Industries financial credit schemes in the Greater Accra region.

The specific objectives of the study are to:

1. Ascertain the sustainability of the schemes
2. Assess the asset and liability management status of the scheme
3. Examine the quality of the portfolios.
4. Ascertain the efficiency level of the schemes.

Research Questions

The following questions will guide the study

1. How sustainable are the Board credit schemes?
2. What is the status of asset and liability management of the schemes?
3. What is the quality level of the portfolios?
4. How efficient are the schemes?

Significance of the study

This study will bring to light the financial service of the National Board for Small Scale Industries as it is helping to promote the micro and

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small enterprise sector. It will further establish the extent to which the Board is achieving its objectives in meeting the credit provision needs of its clientele. This will give the Board an opportunity to be aware of its operational needs and challenges as a public agency to develop the micro and small scale enterprises.

The findings of the study will be made available to the Board for its consideration towards improving its operations in terms of its credit support to the micro and small scale enterprises.

Finally, the outcome could be useful resource material for Government agencies and Non-Governmental Organisations that offer micro finance services to small scale enterprises and for academic reference in the area of microfinance operations in Ghana.

Scope and limitations of the study

The study concentrated on the microfinance operation of the National Board for Small Scale Industries in the Greater Accra Region. The study was limited to eight years of operation of the schemes spanning from 2005 to 2012, as this duration has be selected for the analysis because it is at this period that proper information needed to support the study can be obtain. The Board's credit schemes are one of it tools to help address the financial challenges facing the micro and small scale enterprises (MSEs) in the country. Greater Accra Region was chosen as a result of it high concentration of MSEs Clients of the Board as compare to other nine regions in which the Board operates. The study relied on a

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secondary data which were compiled from the Board's annual loans records, annual report on operations as well as financial statements. Ratios were adopted as the basis for analysing the performance of the Board's micro credit operation as it has been argued that it provides an early warning signal for identifying distress operations of an entity (Amankwah, 2008)

However the core limitation to the study stem from the fact that, only secondary sources of data were used for the analysis of whose production by the institution were not witnessed by the researcher. More so, the use of Greater Accra as a test case for the study might not truly reflect the entire operational performance of the Board nationwide. And, ratios were the only tool used by the researcher to analyze the data, because there were no other quantitative tools on record for the analysis as agreed by the industry.

Organisation of Study

The study is organised into five chapters. Chapter one is the introduction of the study which deals with the background to the study, statement of the problem, objectives of the study, research questions, scope and significance of the study. Chapter two, deals with the literature review to explain the concepts underpinning the objective of the study. Chapter three is about the methodology used by the study. It describes the study area, research design, selection of case study, sources and types of data collected, the approach and tools used to analyse the data, and

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selected benchmarks used in measuring the programme's performance. Chapter four contains the presentation, analysis and discussions of findings based on the secondary data collected. Finally, Chapter five summarizes the findings of the study, draws conclusions and makes appropriate recommendations based on the findings.

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CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter reviews the theoretical and empirical literature on operations of microfinance (or credit) programme. The review is intended to offer meaning and guidelines to the objective set to be achieved by the study.

Theoretical review

The concept and definition of microfinance

In developing countries, many households derive important benefits from financial services and products provided by the formal and/or informal microfinance institutions. The poor and less privileged are able to rely on these institutions for credit, easy access, safe and convenient financial services to better their livelihood. Studies have showed that there is a strong correlation between reduction in poverty and the development of a viable microfinance sector (Bateman, 2011). It is envisaged that if developing countries, including Ghana, can achieve their long term socioeconomic development agenda more quickly and reduce poverty to the barest minimum, will require the development of an effective financial sector composing institutions and programmes that guarantee easy access to an array of flexible, cost effective financial products and services, to meet the targeted needs of the less privileged in society engaged in small economic activities.

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Most of the microfinance services are rendered to people who are classified as economically poor and are engaged in viable activities commonly classified as micro and small businesses. These are enterprises that make use of, small start-up capital, simple operating equipment and small operating space, have few clienteles, low volume of sale, marginal profit, and highly labour intensive. The major aims of these businesses are to provide economic and social support to the owners and their dependents, most often, the family (both immediate and extended ones). Microfinance programmes, activities and services in Ghana largely go to support the micro and small business sector of the economy. There are about 550 microfinance institutions in the country providing small loans and other business support services to micro and small businesses (Domfeh, 2012).

The definition of what is microfinance is less than clear. The term microfinance, which most often is interchanged for microcredit, lends itself to varied definitions. ACCION International defines microfinance as banking and/or financial services targeted at the low-and-moderate income businesses or household, including the provision of credit (African Development Bank, 2006). According to Ledgerwood (1999) it is the provision of financial services to the low income poor and very poor self-employed people. On their part, Brau and Woller (2004) reiterate that they are the formal and informal (non-governmental, governmental and private) arrangements offering financial services to the poor.

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Despite of the confusion in the use of the terminologies of microcredit and microfinance, the United Nations and many other countries have proposed that the two terms be used interchangeably to mean the same at a point (Bliss, 2005). Microcredit, according to ACCION International, forms part of the concept of microfinance, and that it involves the provision of credit services to the low-income entrepreneurs; and also refers to the actual micro loan (African Development Bank, 2006). To buttress the assertion of ACCION International, Grameen Bank postulate that, microcredit symbolizes small loans extended to the poor to undertake self-employment projects that would help them generate income and enable them to provide for themselves and their families (Chavan & Ramakumar, 2002).

Meanwhile, microfinance is more than just credit, it includes other financial services such as savings, remittances and insurance (Bansal & Bansal, 2012) which are becoming popular and being seen as an innovation in the suite of services offered by financial institutions to the poor. In fact, microfinance is no longer an exclusive programme for the poor because commercial banks and insurance companies are beginning to go downscale to reach new markets and targeting the poor as well as non-poor with microcredit schemes.

Consequently, for the purpose of this study, microfinance will be defined as the provision of financial services which involve granting small loans on shorter repayment period on terms that are flexible and easy to

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understand, to support small business operators to improve upon and expand their businesses so as to reduce social and economic poverty. And a microfinance institution (MFI) is the organization that provides microfinance services.

Characteristics of microfinance

It may be helpful to discuss some of the characteristics associated with what is perceived to be “microfinance”. Sackey (2012) enumerated the following as some of the traditional features of microfinance: small and minimal loans (or savings, insurance); loans for entrepreneurial activity; collateral-free loans; group lending; target poor clients; simple application processes; and market-level interest rates. Bliss (2005) add that, a microcredit scheme has characteristics as: small loan size, shorter repayment periods, flexible and easy to understand loan regulations, small scale activities based on local conditions and needs, small entrepreneurs and low-income households as clients, loans use to generate income and support enterprises development, and for community and social services.

Small loans lending is considered necessary and most essential feature of what is termed microfinance programme. Unlike the formal banking system, microfinance focuses on granting small loans to support people and enterprises that are cut off from the normal banking system. The poor would require only a little amount in capital to support their economic activities, which the formal banking system sees as not economically viable and won’t prefers granting large and long term credits. The demand of the

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small scale enterprises and the supply by the formal banking system has created a gap in the financial system which the microfinance comes in to fill.

Microfinance programmes are predominantly directed toward lending to the economically poor. Though some microfinance programmes focus on mobilizing savings, many others also focus entirely on lending without engaging in any savings mobilization. It is not an absolute requirement and condition that a microcredit programmes should lend only to small businesses or the economically poor, but as it has evolved over time, all enterprises must not necessarily be small scale before they qualify to access micro credit. Many MFIs now lends to the medium size enterprises as well.

Another considerable feature of microfinance is the absence of stern demand for collateral as a guarantee for small loans. Most of the micro loans granted by microfinance institutions demand personal or second party's guarantee. Loan facilities from these programmes largely go to support people who are considered poor and lack collateral security. Majority of the microfinance schemes require guarantee from a second and third party to stand in as sureties should the borrower default. They pledge to repay the outstanding debt in the event of default by a borrower. Recent assessment shows many MFIs have shifted from the collateral free loan operations, because of the high level of risk that has been identified to be associated with the poor. Microfinance institutions now require collateral

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such as buildings, investment properties or other personal assets that are valuable to the borrower.

Group lending used to dominate the microfinance loan liability structure. Grameen bank, one of the pioneers of the microfinance movement granted most of its loans to establish groups on the poverty ladder. The strategy which was considered a common feature and practice in microfinance have given way to other model, after it was established that it is certainly not the best method of providing micro-loans. Many MFIs are now offering individual loans to their established clients and other first-time borrowers. Most importantly the Grameen Bank, a forerunner in the microfinance industry, has gradually shifted from the group lending model to individual lending.

The focus on "poor" clients is almost universal, with varying definitions of the word "poor." The issue to focus mainly on the poor has been made more interesting and important in recent times by the various legislations being passed by legislatures directing that microfinance operations and programmes be geared toward poverty eradication. A recent legislation from the United States Congress requires USAID to restrict funding under its microfinance programmes to activities that focus on the poor (World Bank, 2007). The argument now is, microfinance programmes should focus not just the poor, but on the "economically active poor" (Robinson, 2001). The economically poor are the group who by an

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assessment are termed poor, but possess economic skill, talent and activities which can enable them support themselves.

Finally, micro loans are designed to be offered at market rates of interest, such that the MFIs can recover their costs, but not so high that they will make supernormal profits from the poor. As an important feature of microcredit schemes, MFIs are required to charge interest rates that will ensure a balance in reducing the borrower's cost of borrowing and at the same time ensuring that the scheme meet its cost of operation and maintain the value of the loanable fund (portfolio). The rates should guarantee financial sustainability, but not imposing an unreasonable cost on the borrower. As a good policy, a microfinance institutions (or programme) should pursue cross-subsidization of interest rates. This requires the institution (or programme) to charge a bit high interest rates on schemes that lend to the well-endowed and not so-poor, and use the benefits reaped from these schemes to cross-subsidize schemes that lend to the very poor by charging a reduced and low interest rate on such schemes.

Models of microfinance lending

This describes the most common microfinance lending and credit models. This is an overview of how the actual money lending techniques in microfinance are accomplished.

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Solidarity group

The solidarity group model also called the "peer lending group", normally consists of four to five individuals who come together to borrow a loan in solidarity. The members are self-selected, based on their reputation and relationship to each other. An important feature of this model is that it adopts self-screening measures by member themselves. It imposes a duty upon every member of the group to pressure borrowers to repay their loan so as to secure the loans recovery for the MFI. Morally speaking, the burden of such a microcredit is spread on more shoulders than in the case of a single borrower. The same, naturally, also applies on the risk perspective of the lending institution spreading its potential loss likelihood. It is the responsibility of the entire group that every payment is made on time according to a predefined repayment schedule. This also implies that the whole group suffers possible consequences in case they fail to pay back the loan. Most severe consequence for the poor is the loss of reputation and "creditworthiness". After successful repayment of the loan, the group has the possibility and is qualified to get a larger loan for larger activities and projects, if desired. In this model the MFI has less work to do since the borrowers of the groups have most of the responsibilities, such as forming the group and selecting the right members, administration and organization of repayment plans and scheduling group meetings and other meetings with the loan officers from the MFI (Hazeltine & Bull, 2003).

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Village banking

Village banking describes a community-based credit and savings association, run by a village itself or entire community. The model was founded by John Hatch, the founder of the American NGO Finca (Felder-Kuzu, 2005). With this lending model, 25 to 50 low income members of a village, mostly women, join to take out a relatively large loan from a MFI and act as guarantors at the same time. After receiving the loan a self-appointed village committee decides who gets smaller loans out of the group. This model in addition enables saving deposits by members. The normal payback periods range from 4 to 12 months and only after completion can a new loan be taken for the community. The role of an MFI in village banking is to assist only in administration and technical issues (Hazeltine & Bull, 2003).

Grameen model

The Grameen model was developed by Muhammad Yunus, the founder of Grameen Bank, in Bangladesh in 1976. The model proved to be successful and today is practiced in more than 250 outlets of Grameen Bank in more than 100 countries (Yunus, 1999). The Grameen model was copied and modified many times according to the respective needs of regional markets and clients. Therefore, many other models are extensions of, or derived from, the Grameen Model.

Basically this involve an MFI setting up a branch in a village with field officers and some qualified workers, who undertake a research in the

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village to predicts the potential credit demand of the people and their financial support needs. Under this the MFI will initially support up to 15 and 20 villages in the surrounding areas.

The lending process is similar to the solidarity group approach. Groups of five members are created. However, in the beginning, only two members of the group receive a loan and are monitored for one month. The credibility of the group will then be based on the repayment performance of the first two individuals (Hazeltine & Bull, 2003). If they are reliable and could pay back their loan, the remaining members qualify for a loan as well, since the group is jointly and severally liable for the single members. It is stated that loans go first to two members of the group, then to another two, and then to the fifth group member. Given that loans are being correctly and timely repaid, the cycle of lending continues (Armendáriz & Morduch, 2005).

Individual model

This lending model is simply the provision of microfinance services to individuals instead of groups. This model is akin to the traditional banking system. This is especially true where MFIs require collateral or collateral substitutes such as household items with low market value but high personal value from the borrowers. It is most expensive and labor-intensive. The model involves clients monitoring and carrying out an extensive field research necessary to choose the right borrower, most

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especially because many borrowers do not have tangible collateral or credit history or, in some cases, are illiterate.

With respect to this system, loans are given directly to the individual borrowers and not a group. Therefore it becomes the sole duty of the borrower to repay the principal plus interest without the support of any group. Most MFIs who have adopted this model also offers to borrowers' technical assistance, repayment schedule and sometimes business management training (Hazeltine & Bull, 2003). The National Board for Small Scale Industries' microfinance programme adopts this model in its operations. They train the borrowers in basic business management and recordkeeping training before and after the loans are disbursed.

Classification of institutions providing microfinance

A financial institution is a collection of assets, human, financial and, programmes and procedures combined to perform activities such as granting loans, underwriting insurance, or mobilizing deposits (Ledgerwood, 2013). Institutions that provide financial services to poor women and men include non-governmental organizations (NGOs) microfinance institutions (MFIs), specialized government or state institutions, financial cooperatives, formal commercial microfinance banks, specialized micro finance institutions and other non-bank financial institutions (NBFIs), such as insurance and leasing companies. These institutions differ in organizational structure and governance; and their types of products and services influence their legal form, and determine

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their capacity, mandate, target market and the associated supervisory authorities.

In general, Microfinance Institutions can be grouped into three main categories, namely, formal, semi-formal, and informal institutions (Guntz, 2011).

Informal institutions

The informal financial institutions have been in existence for a very long time and have contributed greatly to the development of the formal financial markets. This indicates that lending to the poor is not a new development but has existed since decades. Studies show that the effective costs of borrowing in this market are high (Sundaresan, 2008). Sometimes these institutions remain the only source of finance to the economically active poor. According to Robinson (2001) informal commercial moneylenders, such as cash-rich local traders, employers, landlords, commodity wholesalers, pawnbrokers and other moneylenders are useful or even, in most cases, the only way for poor people to raise their incomes and manage growth. Without those lenders, many poor people would not have the possibility to get a loan at all without collateral and are, therefore, often more important for the creation of an economic society.

The most informal source of finance is clearly, lending from the family, relations or community members. In general, the advantages of informal financial services for the poor are the easy access to money, the minimal or no paperwork at all and the quick availability of funds.

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However, negative aspects for the poor include "high cost, poor quality or undependability and availability of support" (Churchill & Frankiewicz, 2006).

Typically, informal microfinance service providers are not referred to as institutions and are neither subject to special bank laws nor to general commercial law (Ledgerwood 1999). Also Sundaresan (2008) affirms that informal credits usually operate outside the border of regulators and are often not subject to monitoring and supervision of governments or agencies of governments. Moreover due to their nature they are not subject meet to any strict and rigid performance standards. Basically, unlike the formal grouping, this group does not fall under any controlled agency or body to ensure that they meet standards of the industry. Therefore performance in this grouping is nil, as there is no performance parameter and standard to be met by any member in this class. They choose to do what they want, but their actions must be inconformity with the laws of the country.

Semiformal institutions

In the market of microfinance are also the semiformal financial organizations which are unlicensed and generally unsupervised as financial institutions, but may operate under certain general laws and regulations (Robinson, 2001). These institutions are officially registered entities, but usually not subject to the oversight and regulations of a central bank or finance authority (Churchill & Frankiewicz, 2006). The most common of semiformal financial institutions are financial NGOs, and credit unions. In

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Ghana, the credit unions concept is fast booming and there are about 433 registered Credit Unions and thrift societies (Ghana Co-operative Credit Union Association, 2013). These institutions pooled savings from among members and used these funds to make small interest bearing loans to the group members. Other classic organizations in this compendium include NBSSI, MASLOC, and LESDEP. These are established governmental agencies that are not directly regulated or monitored by the Ministry of Finance or the Bank of Ghana. However, as part of their operation and service provide microfinance services to the micro and small businesses in the economy.

However, it is required that this stratum exhibit minimal level of performance and conformity of operation and services standards. Like the formal institutions, the semi formal must measure their operations with the performance parameters set for the industry, but unlike the formal sector are not rigidly compelled to adhered to them. With the increasingly growth of the sector, the Bank of Ghana has ensure the establishment of peer review bodies (e.g. Ghana Co-operative Unions Associations, Association of Susu Collected) to set operating parameters and performance guidelines to check and regulate the operations of these bodies as well as safeguard clients of these agencies. State agencies are required to conform to the appropriate laws and banking operating procure that will ensure that their operations are efficient, to this effect they are required to conform

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standards of the microfinance industry as espoused by the World bank through CGAP and MIX.

Formal institutions

These are financial institutions subject not only to general laws, but also to specific and tailor-made regulations and supervision of the Central Bank, or Ministry of Finance or a specialized agency thereof (Churchill & Frankiewicz, 2006). In Ghana, these institutions are incorporated under the Companies Code 1963 and licensed by the Bank of Ghana (BOG) under either the Banking Act of 2004, as amended by Act 738 of 2007, or the Financial Institutions (Non-Banking) Law 1993 to provide financial services which include provision of credit and savings mobilization from the public. The non-banking law 1993 has given rise to the establishment of many microfinance institutions and rural banks in Ghana. Most importantly, unlike the informal and semi formal institutions, the formal institutions are required to fully comply and implement all laws and regulations, as well as meet are performance standards in the industry without breaking any. Examples of formal microfinance institutions reigning in the world include BancoSol (Bolivia), Grameen Bank (Bangladesh), NovoBanco (Angola), and XacBank (Mongolia) (Guntz, 2011).

Lately, many commercial banks have realized the potential and demand for microfinance services and have accordingly established departments and units in their banking operation to provide a range of

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microfinance services for small scale entrepreneurs. This movement of regulated banks to engage in microfinance is called "downscaling" as is described by Felder-Kuzu (2005). Typical "downscalers" are large corporate banks offering individual loans to upper-end microenterprises or small businesses (Drake & Rhyne, 2002). Examples of successful downscaling in the world include Sogebank (Haiti); Equity Building Society (Kenya); Bandesarrollo (Chile) (Churchill & Frankiewicz, 2006) and HFC Bank (Ghana) (Adjei, 2010).

Sometimes also, in the formal market of microfinance, informal MFIs convert into formalized or regulated financial institutions and this process is referred to as "upscaling". This usually requires fresh capital from outside investors, regulatory approval by local banking authorities and improved governance plus internal controls. The transformation process then typically allows MFIs to mobilize client deposits as an additional source of refinance and offer additional non-credit products (Frank, 2008). Furthermore, with the transformation and growth of their assets, MFIs get improved access to new sources of funding in the international capital markets and also are able to embark on product diversification which allows them then to broaden their outreach and serve more clients. The microfinance market currently faces a trend towards commercialization which refers to the application of market-based business principles to microfinance. This is usually associated with a MFI's

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diversifying away from donor or subsidized funding towards commercial borrowing of debt and equity (Frank, 2008).

It can be concluded that there are three ways a MFI can become part of the formal microfinance market. First, either by downscaling, where regulated banks adopt microfinance as a particular business segment on its own, secondly, by transformation (up scaling), where NGOs transform into regulated financial institutions. A third way would be an establishment of a new microfinance bank under regulations of the relevant supervising authorities and laws (Guntz, 2011).

Theories of microfinance – the institutional versus welfare approach

In the literature, there has been a debate between two approaches concerning the best way to help low-income people or the economically poor such as small-scale entrepreneurs through access to financial services provided by the institutions (Woller, Dunford & Warner, 1999; Morduch, 2000). The two contending theories are the institutionist and the welfarist.

The institutionist approach propound by Robinson and highly supported by the Ohio State University, the World Bank, the Consultative Group to Assist the Poorest (CGAP) in the World Bank, USAID, Maria Otero (ACCION International) and Elisabeth Rhyne (formerly of USAID) (Otero & Rhyne, 1994) argues that microfinance must focus on creating financial institutions to serve clients who either are not served or are underserved by the formal financial system. The goal of this school is that every microfinance institution ought to achieve self-sufficiency by being

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financially self-reliant (Robinson, 2001). The central focus of this approach is the institution, and institutional success is generally gauged by the institution's progress toward achieving financial self-sufficiency. The institutionists argue that a primary objective of microfinance is financial deepening, that is, creating a separate system of sustainable financial intermediation for the poor (Robinson, 2001). Theirs is a "financial systems" approach to microfinance in which the future of microfinance is dominated by numerous large-scale, profit-seeking and none profit-seeking institutions that will provide high quality financial services to large numbers of economically active poor clients. The institutionists eschew subsidies of any kind, because they insist on financial self-sufficiency. This thought is highly supported by the Ohio School after their inquest to the functioning of microfinance (Hulme & Mosley, 1996).

The welfarist school on the other hand postulate that microfinance should focus on reducing poverty through credit, together with complementary services such as skills training and teaching of literacy and numeracy, health, nutrition, family planning, and the like (Ledgerwood, 1999; Robinson, 2001). Robinson (2001) points out that under this approach credit is provided to poor borrowers, typically at below market interest rates. Proponents of this approach says that the main goal of microfinance must be a system to reach the poor, especially the extremely poor - the poorest of the poor - with credit to help them overcome poverty and gain empowerment. Thus, the welfarists are quite explicit in their focus

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on immediately improving the well-being of participants. According to Woller, Dunford, and Warner (1999) the welfarists are less interested in banking *per se* than in using financial services as a means to alleviate directly the worst effect of deep poverty among participants and communities, even if some of these services require subsidies. Their objective tends to be self-employment of the poorer of the economically active poor, especially women, whose control of modest increases of income and savings is assumed to empower them to improve the conditions of life for themselves and their children. Woller, Dunford, and Warner (1999) point out that like the institutionists, welfarists have assumed more impact on poverty alleviation than the institutional strengthening or capability to deliver on its services.

Robinson (2001) concludes that inspite of the two schools diverging in the operations and the focus of microfinance; they have substantially contributed to the development of microfinance institution. He asserts that, however they are some institutions using the welfarist approach have successfully reached poor people with donor- and government-subsidised credit services. This approach, he continue, seems to be more suitable for the poorest of the poor. But, the successful institutions following the welfarist approach, in aggregate, can meet only a small portion of the demand for microfinance since most institutions following this approach (subsidised credit) are not sustainable and not growing (Robinson, 2001). In contrast, he says, the institutionist approach has proven that it is able to

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make financial services –both credit and savings- available to low-income clients on a large scale, and to do so profitably and sustainably. He further argues that for for institutions to compete favorably in the financial market requires that they adopt a financial system approach or institutionist approach be more sustainable and expand in operations to be able to reach out to millions of clients on a long-term basis in multiple (Robinson, 2001).

Performance measurement of microfinance institution

Performance measurement quantitatively gives important indications of an organisation's products, services, and the processes that produced them. They are tools to help understand, manage and improve upon what an organisation does (Rhule, 2008). Performance measurement according to Rhule (2008) shows, first, how well an organisation is doing; second, if it is meeting its set objectives; third, if customers are satisfied with its services delivery; forth, if and where improvements are necessary; and fifth, what the future hold for the organisation. Performance indicators provide the necessary information to help management and other stakeholders to make intelligent decisions about an organization's operations and its activities. As discussed in chapter one, the main objective of the study is to evaluate the performance of the NBSSI microdot operations to assess how it can be made viable and sustainable. This section presents the performance measurement of microfinance

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institutions. The discussion includes the way to address the performance approaches, and indicators to be used in this study.

Performance assessment of microfinance institutions according to Ledgerwood (1999) has to be based on the objectives of the institutions. Although the main objective of most microfinance institutions is to improve the welfare of the poor, there have been two approaches (welaferist and institutionalist) to achieve the objective as discussed in the previous section. While the welfare approach measures success mainly by how well it fulfills the needs of the poorest in the short term, or poverty reduction, the institutional approach measures success by the sustainability of the institutions assuming that self-sustainable microfinance institutions are likely to contribute to income expansion and poverty reduction. As noted, since microfinance institutions are seen as financial intermediaries aiming to give better access to credit for low-income people, they are expected to be financially viable and sustainable in achieving this objective. Consequently, their performance measurement has to be based on their financial and operational viability, efficient management policies, cost efficiency and on the outreach of the institutions –which is the main objective of the institutional approach (Khandker, 1998; Yaron and Benjamin, 1997).

According to CGAP (2001) several performance assessing techniques have been developed in 1990s to assess the operational performance of microfinance institutions. First, ACCION8 Approach

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which adopts the original CAMEL methodology to evaluate U.S. commercial lending institutions. CAMEL is the acronym of Capital adequacy, Asset quality, Management, Earnings, and Liquidity. While the ACCION CAMEL issues a composite score, similar to a rating, it is not meant to measure credit risk. The final score ranges from 0 to 5, or D to AAA. A microfinance institution scoring below 2 should be operating a lending business. Scores from 2 to 3 indicate microfinance institution with fundamental weaknesses that must be corrected. The purpose of this tool is to strengthen management and generate a common framework for evaluating and comparing the performance of only ACCION affiliates across countries such as in Latin American countries (CGAP, 2001).

Second, the World Council of Credit Unions (WOCCU) - a non-profit organization that promotes the development of financial cooperatives, headquartered in Madison, Wisconsin - uses PEARLS in assessing the performance of microfinance institutions (CGAP, 2001). PEARLS is a set of 45 ratios used to evaluate and monitor the financial stability of credit unions within WOCCU, especially for use in its institutional strengthening programs. PEARLS are grouped under six areas of financial performance: protection, effective financial structure, asset quality, rates of return and costs, liquidity, and signs of growth (PEARLS). The PEARLS methodology is driven by financial performance. However, PEARLS does not explicitly address operational policies and management,

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though an institution's financial performance obviously says a great deal about its management and policies.

Third, PlaNet Rating – a branch of PlaNet Finance, an international non-profit organisation based in Paris - uses GIRAFE rating in assessing the performance of microfinance institutions (CGAP, 2001). GIRAFE's 26 indicators are grouped under six areas of risk: governance and decision making process, information and management tools, risk analysis and control, assets including loan portfolio, funding (equity and liabilities), and efficiency and profitability. Among other approaches, GIRAFE gives the most weight to 'fiduciary' risk how an institution is governed, and whether it may fail to meet investors' and shareholders' expectations because of inadequacies in systems, processes, and organisation. The methodology focuses more on management than on risk.

Fourth, is the approach proposed by MicroRate, a limited liability company based in Washington D.C. MicroRate's methodology focuses on how the various risks of a microfinance institution operations affect the institution's credit worthiness. The main components of this methodology are (1) identifying key risk areas and their drivers; (2) comparing the microfinance institution's performance with that of its peers on an adjusted basis; and (3) making this information available to the market where possible. The key factors driving the evaluation are efficiency, asset quality, growth, and profitability. MicroRate has completed about 70 assessments so far, most of them in Latin America (CGAP, 2001).

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All of these techniques presented above are applicable to assess the performance of microfinance institutions. However, in selecting an assessment technique, some contextual factors must be considered, such as the geographical context (appropriate benchmarks necessarily and adequate for Africa, Asia, etc), the varying nature of the institutions (not-for profit institutions should not be compared to profit making institutions), and the varying lending approaches that are used (Banking financial or none banking financial) (Ledgerwood, 1999). According to Ledgerwood (1999) performance indicators must be put in the context of where and how the different microfinance institutions are operating, for that matter she proposes an assessment technique in her book *Microfinance Handbook* published by the World Bank (1999) which has been wholly adopted by the CGAP of the world Bank . she accordingly say her propound techniques have been drawn from the experiences of a number of microfinance institutions, both formal and semi formal, taking into consideration all the micro and macroeconomic environments of all countries in the world. She points out that each of the performance indicators was chosen because they are useful in managing microfinance institutions (internal management) such as productivity and efficiency (Ledgerwood, 1999). MIX and CGAP, with the support of the World Bank adopted Ledgerwood's approach which is seems to be the most appropriate to evaluate performance and have collected data from all over the world to developed varying indexes to help

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benchmark the performances of microfinance institutions and programmes worldwide (MIX and CGAP, 2011).

SEEP Network who strongly emphasized the use of ratio analysis to evaluate the performance of microfinance institutions has summarized and category into four classes, the broad ratios to analyze performance, namely sustainability and profitability ratios, assets/liability management ratios, portfolio quality ratios, and efficiency and productivity ratios (SEEP Network, 2005). The ratios summaries the performance indicators of an institution, such as the quality of portfolio, yield on gross portfolio, risk coverage, portfolio at risk, operating expense, cost per active client, borrowers per loan officer, average loan disbursed, operational and financial sustainability, to monitor their progress as proposed by the institutional school of thought (Robinson, 2001). The calculation technique for the indicators chosen in this study is provided bellow.

Sustainability and profitability ratios

Profitability and sustainability ratios show the MFI's ability to continue operating and grow in the future. Most reputable MFIs are striving for sustainability, regardless of their nonprofit or profit status; donors and investors alike look to fund sustainable institutions (SEEP Network, 2005). The recommended sustainability and profitability ratios in the industry include.

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Table 1: **Microfinance sustainability and profitability performance assessment ratios**

Ratio	Formula	Explanation
Operational Self-Sufficiency	Financial Revenue / (Financial Expense +Impairment Losses on Loans + Operating Expense)	Measures how well an MFI can cover its costs through operating revenues
Financial Self-Sufficiency	Adjusted Financial Revenue / (Adjusted Financial Expense + Adjusted Impairment Losses on Loans + Adjusted Operating Expense)	Measures how well an MFI can cover its costs taking into account adjustments to operating revenues and expenses, and be commercially viable

Source: SEEP Network (2005)

Asset/liability management ratios

The basis of effective financial intermediation is the ability to efficiently manage assets (the use of funds) and liabilities (the source of funds) by a MFI (SEEP Network, 2005). Asset/liability management is required in a microfinance institution to ensure that funds acquire are used to create assets that produce the most revenue (most "productive") and achieve increase net income. It also ensures that an MFI has sufficient funds available ('liquid') to meet any short-term obligations.

The yield on gross portfolio and loan portfolio to total assets are the two most applicable assets/liability management ratios used to assess the performance of MFIs involve in microcredit. The *portfolio yield ratio*, measures how much an MFI actually received in cash interest payments,

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fees and commissions from its clients during a period (SEEP Network, 2005). The ratio is an indicator of an MFI's ability to generate cash for operations from it gross loan portfolio. Cash receipts from gross loan portfolio are considered vital for the survival of MFI's. *Portfolio to asset ratio* on the other hand indicates how efficient and effective an MFI allocates it assets to it primary business and most profitable activity of making loans (SEEP Network, 2005). It shows how well the organisation has deployed it funds into high-yielding microloans. Again, it signal to the MFI whether it needs additional funding for its operations or has to reduce its current funding due to excess liquidity.

Table 2: **Microfinance assets and liability performance assessment ratios**

Ratio	Formula	Explanation
Yield on Gross Portfolio	Cash Received from Interest, Fees, and Commissions on Loan Portfolio / Average Gross Loan Portfolio	Indicates the MFI's ability to generate cash from interest income, fees, and commissions on the Gross Loan Portfolio. Only revenues that have been accrued and paid in cash are included.
Portfolio to Assets	Gross Loan Portfolio / Assets	This measures the MFI's allocation of assets to its lending activity. Indicates management's ability to allocate resources to the MFI's primary and most profitable activity — making microloans.

Source: SEEP Network (2005)

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Portfolio quality ratios

The primary asset of an MFI is its gross loan portfolio. Portfolio quality is important to the financial success of a microfinance institution. Portfolio quality basically refers to the impact of none performing loans and none earning assets on an entire loan portfolio. The quality of a loan portfolio is affected by credit risk, which is the risk that loans granted to borrowers will not be repaid on or after the expiration of the loan. A drop in a quality of a portfolio is a threat to the survival of an entire credit programme, because it may presage higher cost to borrow from the schemes and a fall in donors support. A Drop may also reveal problems in lack of effective monitoring, low repayment and high default rate. In many case, it may lead to increase cost of operations and lower income. This is because the organization will have to spend much on recordkeeping and recovery effort with little or no repayments from defaulters. According to SEEP Network, (2005) the quality of a portfolio must be examining from several different perspectives to be able to get a clearer picture of the situation. In examining the quality of a portfolio the ratios (portfolio at risk, write off, risk coverage) must be considered together, because none of them alone is sufficient for effective analysis (SEEP Network, 2005).

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Table 3: **Microfinance portfolio quality performance assessment ratios**

Ratio	Formula	Explanation
Portfolio at Risk (PAR)	(Nonperforming loans > 30 Days + Value of Renegotiated Loans) / Gross Loan Portfolio	This measures the percentage of a MFI nonperforming loans. Thus loans which are due and have passed their repayment period. It is the most accepted measure of portfolio quality. The most commonly accepted measurements of PAR are the use of loans which are in default for over 30 days or 90 days.
Write-off	Value of Loans Written Off / Average Gross Loan Portfolio	Represents the percentage of the MFI's loans that has been removed from the balance of the gross loan portfolio because they are unlikely to be repaid. MFIs' write-off policies vary; managers are recommended to calculate this ratio on an adjusted basis
Risk Coverage	Impairment Loss Allowance / Portfolio at Risk > 30 Days	Shows how much of the portfolio at risk (nonperforming loans and renegotiated loans) are covered by the MFI's Impairment Loss Allowance (or loan loss reserve).

Source: SEEP Network (2005)

Efficiency and productivity ratios

Efficiency and productivity indicators reflect how well an MFI uses its resources, particularly its assets, personnel and expenditures (SEEP Network, 2005) to increase its outreach and number of clients. MFIs use

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many different efficiency and productivity indicators, tailoring them to reflect their own organizational structure, product lines, and monitoring priorities.

The efficiency of a microfinance programme is reflected in the number of clients it has been able to served, the number of loans it has been able to create, and the amount it has been able to grant as loans. And a critical examination of these ratios must be able to presents a significant description of the current state (success or failure) of a microfinance institution, both at its financial and operational management level. The ratios are presented as follows:

Table 4: **Microfinance efficiency and productivity performance assessment ratios**

Ratio	Formula	Explanation
Operating Expense Ratio	Operating Expense / Average Gross Loan Portfolio	Highlights personnel and administrative expenses relative to the loan portfolio. It is the most commonly used efficiency indicator.
Borrowers per Loan Officer	Number of Active Borrowers / Number of Loan Officers	Measures the average case load of (average number of borrowers managed by) each loan officer.
Average Loan Disbursed	Value of Loans Disbursed / Number of Loans Disbursed	Measures the average value of each loan disbursed. This ratio is frequently used to project disbursements.

Source: SEEP Network (2005)

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Relevance and limitations of ratios

According to Brown, Dutton and Rietz (2000) ratios offer a lot of benefit when used in appraising the performance of organisation. They help in evaluating performance, structure analysis, show connection between activities and performance, compare past performance with the current and projected future, and serve as a benchmark with the industry. However, there are limitations to the use of ratios in analysis. From the perspective of Brown, Dutton and Rietz (2000) ratios are limited in the sense that, a firm's industry category is often difficult to identify; published industry averages are only guidelines; recording and accounting practices differ across firms; sometimes it is difficult to interpret dimensions in ratios ; industry ratios may not be desirable targets; and the seasonality effects of ratios. Inspite of this limitations, they remain the very important tool to analyse financial performance.

Trend analysis

Trend analysis is the comparative examination of an organisation's performance over a period of time. Trend analysis, also termed as trend percentage analysis or index number reveals patterns in data covering successive periods through computation of trend percent from a series of financial number (Larson, Wild & Chiappetta, 1999). According to Brigham and Houston (2004) trend analysis involves the plotting of ratios over time to show financial improvement or deterioration. Garrison and Noreen (2003) also state that, trend or horizontal analysis is formulated by

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showing changes between years in both absolute and percentage terms. The best method for performing trend analysis is to either compare the current period to a previous period of the same length, such as the previous quarter and the current quarter, or to annualize the indicators for the current period and compare the annualized indicators to the previous year (SEEP Network, 2005).

Trend analysis, therefore, is the examination and evaluation of a string of relevant information to unearth patterns and establish underlying reasons or factors as input to decision making (Rhule, 2008).

Empirical review

In this section, the study attempts to review empirical literatures on performances and operations of some microfinance intuitions and programmes in other developing economies. The section also concludes with prior studies into the operations of NBSSI credit services and other sponsored state credit programmes in Ghana.

The success of microfinance programme or institution is akin to its ability to sustain its operations with little or no subsidies, thus being Sustainable, both financially and operationally self-reliant. In a study by Chavan and Ramakmar (2002) in India the sustainability of microfinance programmes, revealed that most rural credit programmes both state led and non- governmental depend heavily on subsidies from donors to support their operations and these impedes their ability to expand their operations to cover a wide clientele. In a similar study, Hulme and Mosley (1996)

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concluded that both the Grameen bank in Bangladesh and the Rural Regional Banks (RRB) in India had over 100 percent of its interest rates and expenditures being subsided by the state and private donors. The study further revealed that this high dependency had a negative effect on their operations as they could not meet their operational expenses during the periods in which the subsidies were stalled. In his reported finding on the operational performance of Grameen bank, Hossain (1988) discovered that the Grameen bank would have incurred much loss in the operating year of 1980 if subsidies to support its operation had been reduce as it did happen in the later year of 1986, with the bank reporting a net loss of 5.7 percent on outstanding loans which resulted from the drawback in interest income and operational expense subsidies. Khandker, Khalily and Khan (1995) further established that, the period Grameen bank increased its interest rates was the time it dependency on subsidy was at it all time low. This they added, forced the bank to charge realistic rates of interest to enable it sustain its operations, thus becoming financially viable, the study concluded.

The quality of loan portfolios determine the ability of MFIs to continue carrying out a microcredit operations and this is linked to the level of risk to its loanable funds for loans. There is a strong correlation to the level of loan risks and the continuity of a microcredit service. The ability to safeguard these funds from rapid depletion through high defaults will determine their intensity to continuity to offer more services to wider

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clients. Chavan and Ramakmar (2002) in examining the effect of high default on loans granted by Integrated Rural Development Programme (IRDP) and RRB in India found out that, high accumulation of credit defaults by borrowers increased the risk of the programmes to not able to survive, thus threatening their continuity . The study further concluded the high loans default led to an increased cost in the schemes operations by way of high clerical expenses and the associated cost of trying to retrieve the loans from defaulters. In another study by Sinha and Matin (1998) on Grameen bank of Bangladesh revealed that, the high level of loan default by borrowers led to a high depletion in the loanable funds of the bank and the subsequent reduction in the value of its new loans to borrowers and its client coverage.

In assessing the efficiency and productivity of a microcredit programme, Yaron (1994) in his study to review the policies, modes of operation, incentives, and financial performance of four publicly sponsored microfinance institutions in Asia – the Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand, the BKK and the BRI Unit Desa in Indonesia, and the Grameen Bank in Bangladesh – that are perceived to be efficient in their operations, to find out what factors contributed to this success, identified these conditions to include low transaction and administrative costs in their delivery mechanism, efficient screening and processing loans, collecting repayments systems, and fair distribution of highly trained staff to efficiently monitor borrowers.

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However, empirical report on the performances and operations of the NBSSI microcredit schemes and other programmes in Ghana are limited, nonetheless there are few of them worth referring. Adjei (2010) in his study on the Government of Ghana's Micro and Small Loan Centre (MASLOC) revealed the programme had a repayment rate of about 25 per cent of all loans granted from 2007 to mid 2009, more so he indicated the programme relies highly on subsides to support its operations. Steel and Andah (2003) in another study on NBSSI microfinance programme found out that, apart from Enhancing Opportunities for Women in Development (ENOWID) under PAMSCAD scheme, all the other schemes (Revolving fund, Development Cottage Enterprise fund, NBSSI/DED credit and NBSSI/NFED –Development Assistance) operated between 1989 and 1997 by the NBSSI had low recovery rates, low client outreach and depleted funds both in nominal and real terms. Bhasin and Akpalu (2001) in a survey on the impact of microfinance on the efficiency of enterprises in Cape Coast concluded NBSSI performs very well as far as it training services are concern but poorly in credit provision, because the Board lacks sufficient loanable funds. Okoh and Ping (1999) established that NBSSI focuses more on skills trainings in building capacities of small business owners to the neglect of developing sustainable credit programme to provide adequate financial support to these firms.

However it is worth to know that, the earlier studies into the Board microfinance programme focused on its social impact to the borrowers,

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thus adopting the model of social impact assessment which hinges on the theory of “welfare approach” to determine the schemes performance, i.e. their impact on the operations and performance of the loan beneficiaries. They have assessed performance using the elements of, the number of clients reached, volume of loans distributed, and level of poverty reduction after the loan, and firm growth, client loan repayment levels, among others. They have however had no empirical review into the operational activities of the institution or programme to assess it viability, sustainability and strength to perform it services of providing regular, adequate and less costly credits to support the many and growing MSEs in Ghana. Adjei (2010) and Graham (1989) assert that many special state microcredit programmes, projects and institutions do not work or becomes unsustainable because they relied much on subsidies, remains donor funded, politically direct credit to particular ends to favour policymakers and, implements cheap credit policies. The social impact assessment performance mechanism is not capable of unearthing such deep flaws and inconsistencies inherent in an institutions and programme. A problem of this nature is real and it will require a “within institution” self assessment approach as argue by the Institutionists school of thought to evaluate how the Board’s microcredit programme is performing.

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National Board for Small Scale Industries microcredit schemes being operated in Greater Accra

The National Board for Small Scale Industries (NBSSI), in addressing the financial challenges confronting the MSEs, instituted some credit schemes with the support of the government and other state institutions. The motives for setting up these schemes were to provide financial credit to support the operations of the MSEs to: procure raw materials, purchase equipment, rehabilitate equipment and, contrite to the production of factory shed (NBSSI newsletter, 2004). Currently, credit schemes being operated in the Greater Accra Region by the Board are PAMSCAD creditline for SSEs, NBSSI Revolving fund loans scheme, and NBSSI/MASLOC loan scheme.

PAMSCAD creditline for SSEs was the foremost microcredit schemes operated by the National Board for Small Scale Industries.

The advent of the Economic Recovery Programme (ERP) and the Structural Adjustment Programme (SAP) brought into fore the need to address some social problems (NBSSI News, 1994). During the implementation of the programme, many employees of government services were deployed and rendered redundant. The PAMSCAD initiative was therefore instituted by the government to address these problems that cropped up.

The Board in 1989, upon careful observation, realized many small scale enterprises operating in the rural areas, the poor in the urban centres, small scale women entrepreneurs and, redeployed and redundant ex-public

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and civil servants were vulnerable (NBSSI News, 1994). To take care of these strata, the NBSSI collaborated with the Ghana Enterprises Development Commission to administer a revolving fund of ¢340 million cedis provided by the government of Ghana (Ministry of Trade, Science and Technology, 1989). As part of the requirement of the creditline, the Board was to loan out n ot less than 40 percent of the fund to women entrepreneurs and also set GH¢250 (¢2,500,000) as the upper limit of loans granted to entrepreneurs. Applicants were required to provide two personal guarantors with regular annual income three times the loan amount being granted (NBSSI News, 1998).

The main criteria for an approval of the loan request by the applicant include amongst others, the managerial capability of applicant, the technical feasibility of the project, and its financial viability. The PAMSCAD creditline guidelines made provision for training programmes aimed at preparing entrepreneurs to face the psychological as well as operational challenges of business running. This package was to be delivered after the approval of the credit. The scheme charges an interest rate of 20 percent on the amount granted as loan.

The National Board for Small Scale (NBSSI) Revolving fund loan scheme is another scheme being run by the Board. In 1989 the government of Ghana, approved a grant of ¢80 million to the Board to be used as a revolving fund to provide credit support to small scale enterprise in the country (Ministry of Trade, Science and Technology, 1989; NBSSI

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News,1994). The facility agreement was signed in May, 1992 and actual disbarment beginning in April, 1993(NBSSI News, 1994). The purpose of this loan scheme was to assist small scale entrepreneurs to procure equipment and raw material for operation. The scheme gives GH¢300 – GH¢500 (in old cedis ¢3,000,000 - ¢5,000,000) as loans to beneficiary enterprises (NBSSI News, 1994). Like the PAMSCAD, the NBSSI Revolving fund also requires two personal guarantors of good financial standing to stand in surety for the applicants. Annual interest rate charge on loans giving under this scheme is 20 percent. The facility has duration of 12 months with two moth moratorium.

NBSSI/MASLOC is the newest credit scheme of the Board lending to MSEs in the economy. This is collaboration between the National Board for Small Scale Industries (NBSSI) and the Microfinance and Small Loan Centre (MASLOC) to provide microcredit to support the micro and small enterprises in the country. The scheme through NBSSI started disbursement in the mid of 2008. MASLOC provided the loanable funds, and NBSSI undertook the disbursement to successful applicants. Qualify applicants can receive a loans of between GH¢2,500 and GH¢25,000, but dependent on the size of the businesses and the ability of the applicant to repay the loan.

Like all other loan scheme, this scheme as part of the approving process required applicant provide a business plan and two guarantors of good financial standing. The scheme charges 3.5 percent plus the prevailing

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Bank of Ghana policy rate at the time the loan is being granted as interest on loan. The loans are to be repaid between a total period of 12 and 24 months plus a two months moratorium.

Summary

This chapter looked at the theoretical and empirical study of the concepts of microfinance and performance analysis of microfinance operations. From the review, microfinance is the provision of financial services by a microfinance institution (MFI). This involves the granting of short term small loans to the economically poor in the society with little or no collateral demand. Microfinance institution in all over the world could be classified as an informal, semi-formal and, formal. The form exhibited by microfinance operation or institution determine the level of control and supervision over their operations. MFIs have myriad means through which they can lend out to borrowers, thus solidarity group, village banking, grameen and Individual models or techniques of lending.

The development and operations of microfinance programmes and institutions have been shaped by two contrasting school of thoughts - welfarist and institutionist. Their theories have influence how to determine the performance of microfinance operations. The welfarist school- believes in the subsidization of microfinance operation, presupposing the fact that the performances of microfinance should be base on their social support and impact levels. The institutionist school- on the other hand strongly affirms the fact that microfinance will be relevant if the institutions

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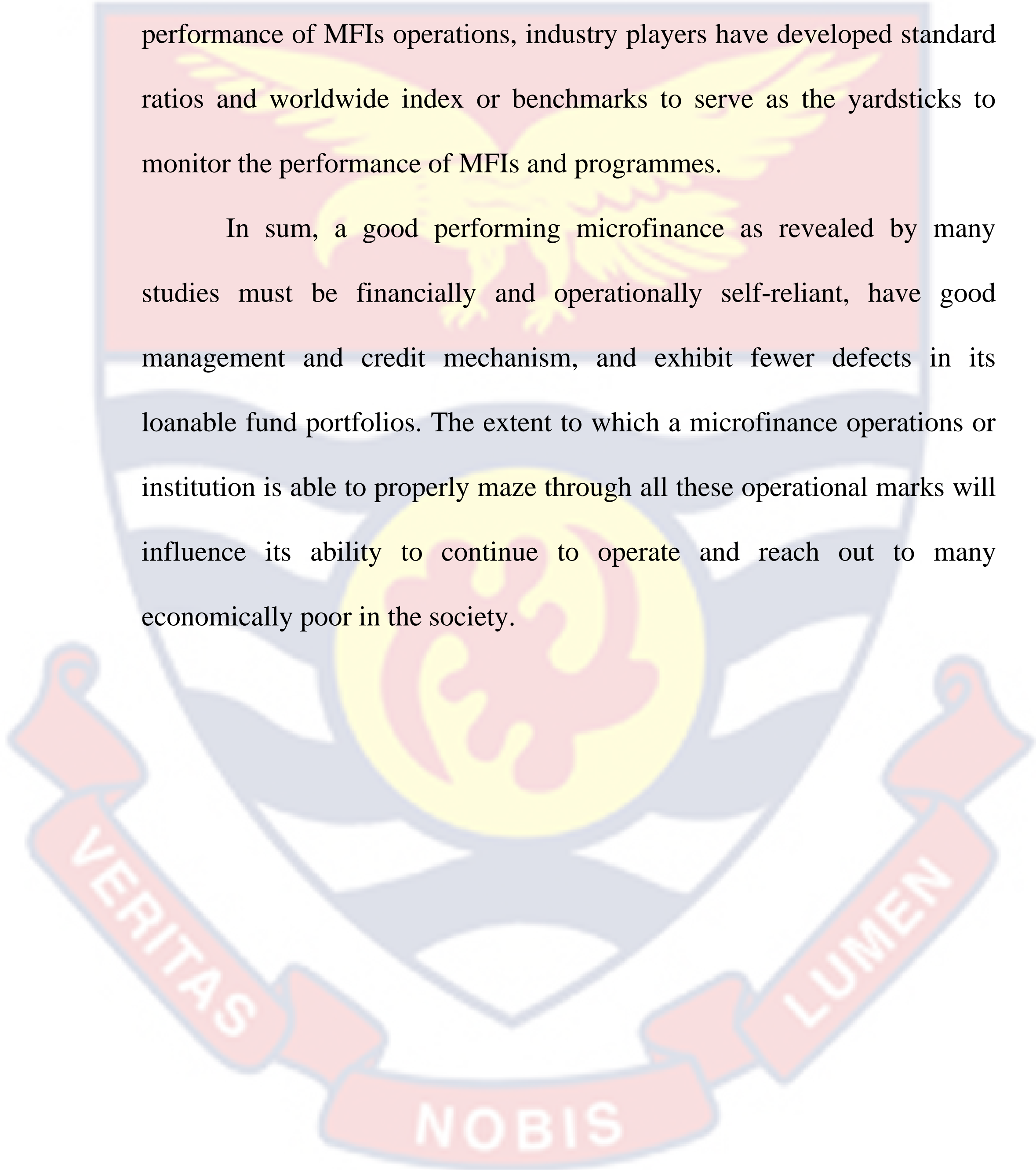
undertaking the operation are strengthening to perform. This thought therefore forms the basis of this study, thus to see how NBSSI is empowered to perform its microfinance operations. To measure the performance of MFIs operations, industry players have developed standard ratios and worldwide index or benchmarks to serve as the yardsticks to monitor the performance of MFIs and programmes.

In sum, a good performing microfinance as revealed by many studies must be financially and operationally self-reliant, have good management and credit mechanism, and exhibit fewer defects in its loanable fund portfolios. The extent to which a microfinance operations or institution is able to properly maze through all these operational marks will influence its ability to continue to operate and reach out to many economically poor in the society.



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CHAPTER THREE

METHODOLOGY OF THE STUDY

Introduction

This chapter presents the methodology of the study. It focused on the study area, research design, selection of case study, sources and types of data, the analytical approach and tool used for data analysis, and performance benchmarks in the microfinance industry.

Study area

The study area is the Greater Accra Region of Ghana. This region is the smallest of Ghana's ten regions in terms of landed area, occupying a total land surface of 3,245 kilometers or 1.4 percent of the total land area of Ghana. It is the second largest populated region after the Ashanti region, with a population of 4,010,054 according to the 2010 census, representing 16.3 Percent of Ghana's total population. The region is bordered on the north by the Eastern Region, on the east by the Lake Volta, on the south by the Gulf of Guinea, and on the west by the Central Region.

The region is further divided into ten administrative districts, namely Accra Metropolitan, Ada West (New), Adentan municipal, Ashaiman Municipal Dangme East ,Dangme West ,Ga Central (New),Ga East Municipal, Ga South Municipal, Ga West Municipal, Kpone Katamanso (New), La Dade-Kotopon Municipal (New), La-Nkwantanang-Madina (New), Ledzokuku-Krowor Municipal, Ningo/ Prampam (New), Tema Metropolitan.

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The Greater Accra region harbors the seat of government in its capital city of Accra.

Research design

An explorative case study has been adopted as the study design for this work. An explorative design offers a researcher a valuable means to finding out what is happening and it is particularly useful if the research is to help provide understanding to a problem (Saunders, Lewis & Thornhill, 2007). According to Robson, a case study involves doing research which involves an empirical investigation of a particular contemporary phenomenon (Robson (2002) cited in Saunders, Lewis & Thornhill, 2007). This approach has, therefore, been chosen because, it is the belief of the researcher that it will enable him to concentrate on the specific aspect of investigating into the main area of performance and sustainability of microfinance operation of the Board so as to attempt to identify the various intervention and processes that will work for the National Board for Small Scale Industries microcredit programme.

Selection of case study

The study was carried out at the Greater Accra Region branch of the National Board for Small Scale Industries. The operation in the Greater Accra Region was chosen because the majority of the Boards clients are located in this region, both financial and non-financial clients. Furthermore, it is in the good reason of the researcher that data and results from this

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region will be sufficient to provide a fair and good reflection of the microfinance operation of the board, and also, better helps address the set objective(s) of this study. More so, this region of operation by the board was chosen for the study partly because Ghana's micro and small enterprises distribution are skewed more in favour of the Greater Accra region than any other region.

Sources and types of data collected

The study made used of secondary and quantitative data, collected from unpublished quarterly and annual reports of the National Board for Small Scale Industries Greater Accra regional secretariat. Due to the nature of data needed to complete the study, the author had to compile from various reports, mainly from annual loan reports and annual operational reports of the Greater Accra Regional Secretariat as well as the financial statements of the whole Board. The data obtained was mainly limited to the Board's microcredit operations and its performances from the period of 2005 to 2012.

Analytical approach, tools used and data presentation

The following specific approaches were used for this study. Ratio analysis formed the main approach to the data analysed**.** The study calculated and analysed the data under the specific categories of sustainability ratios, assets/liabilities management ratios, portfolio quality ratios, as well as efficiency and productivity ratios. The study also carried

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out a trend analysis using the vertical analysis approach on all the three schemes performance.

The tool used to analysed the data was mainly MS Excel, 2010, and the information represented in tables and graph form.

To conclude, the methods, processes, material and tools employed for the execution of this study were so chosen to facilitate the most effective and efficient delivery of the research objectives.

Selected benchmarks of the microfinance industry

To fairly interpret the results obtained from the calculations made on the data about the operations and measure the performance of the NBSSI microcredit programme, the study made use of selected performance benchmarks in consonant with the characteristics exhibited by the NBSSI and its financial programme. They are the industry benchmarks and, formed the basis of evaluating the programme's performance. These are those mainly used to evaluate institutions and programmes in the category of non financial institutions, non banking institutions, not for profit organizations, and an institution located in an African continent. As must be observed all the parameters as outlined above are shared by the NBSSI, as it is neither a financial institution nor a banking institution and, having no profit motive but pure state intervention for social development, and most importantly it being situated in the continent of African. It ought to be reiterated that there are other set parameters of the industry, however apart from these selected ones all the others in the industry are for

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programmes and institution with different attributes and character than the NBSSI.

Microfinance Information and Exchange (MIX) and Consultative Group to Assist the Poor, are global bodies and a member of the World Bank headquartered in the United State of America, tasked with the responsibility to fashion and proffer standards to benchmark the performance and operations of microfinance institutions and programmes worldwide. They developed these adopted benchmarks to serve as a guide to streamline the operations and performances of MFIs and programmes in the world (Microfinance information exchange (MIX) and the consultative group to assist the poor (CGAP) (2011). These standards have been developed taking into consideration all institutions, microfinance industries and general economic parameters of member countries.

Table 5: Microfinance operation performance benchmarks

	Unit	Benchmarking Class			
		Africa	None financial institutions	None banking financial institutions	Non Profit organisations
Sustainability & profitability					
Operational self sufficiency	%	100	87.6	100	97.6
Financial self-sufficiency	%	98.8	85.8	98.5	95.7
Asset/liability management					

Table 5, continued

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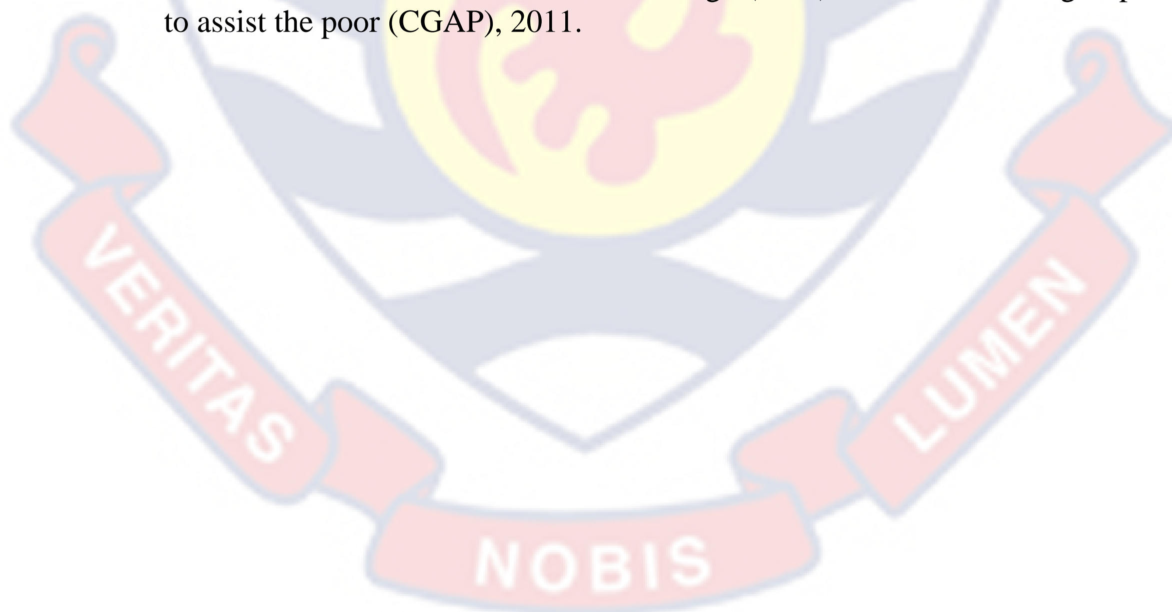
Yield on gross portfolio	%	22.1	27.8	23.2	26.2
Portfolio to assets	%	63.1	75.1	69.3	67.2
Portfolio quality					
Portfolio at risk (>30 days)	%	5.9	11.8	5.1	4.2
Write-off	%	1.4	2.8	1.3	0.5
Risk coverage	%	55.6	63	63	72.5
Efficiency & productivity					
Operating expense	%	30.1	44.6	37.6	38.5
Cost per active client	US$	132	86	174	78
Borrowers per loan officer	Client	234	250	213	283

Source: Microfinance information exchange (MIX) and consultative group to assist the poor (CGAP), 2011.



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CHAPTER FOUR

PRESENTATION AND DISCUSSION OF RESULTS

Introduction

This chapter gives detail presentations and discussions on the results from the data collected and analyzed. The discussions were done taken into cognizance both the primary and secondary objectives of the study, the 'institutionalist' theory of operating microfinance and on the proposition of legerwood (1999) as adopted by MIX and CGAP (2001). They were essentially quantitative and the results represented in tables and graphs.

Sustainability performance of NBSSI microcredit programme

This is an examination of how the NBSSI microcredit programme have operated, performed and survived with little or no intervention from an external support. It involves an assessment of the schemes ability to operate and survive on its own, with revenues generated through its operations. The examination was undertaken using the two most accepted ratios in the industry, thus operational self-sufficiency (OSS) - which identifies the extent to which the programme has met all its operating expenses with its revenues inflows; and, financial self-sufficiency (FSS) ratios – which examine the level of the schemes dependent on subsidies and other external financial support for its operations. The results and its discussions are presented in Figure 1 and Figure 2 respectively.

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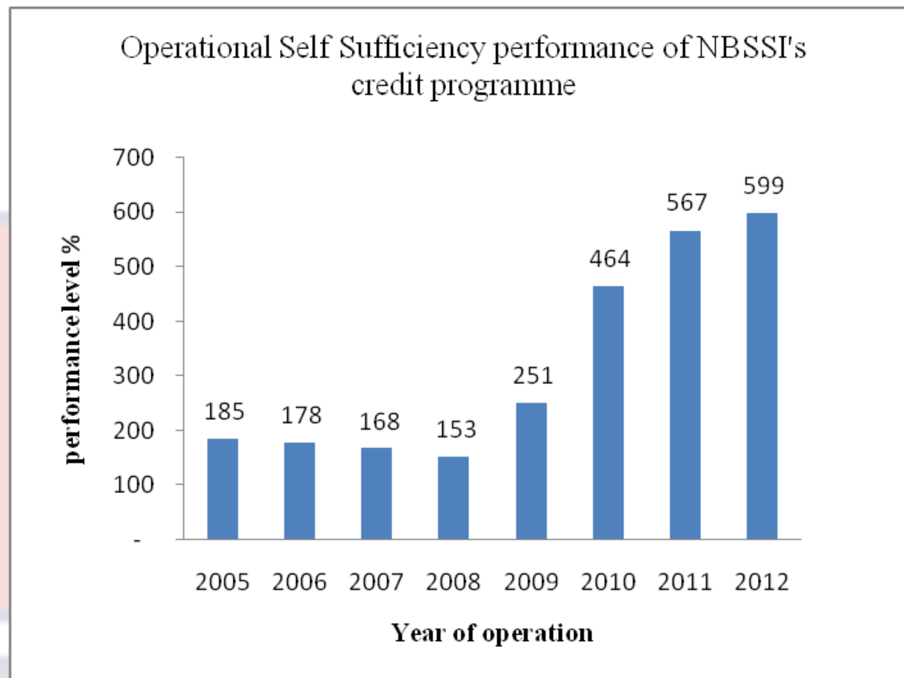

Figure 1: **operational self sufficiency of the Schemes**

Source: Author's construct, 2013

The results presented by Figure 1 are pointing to the fact that the schemes are operationally sustainable. As all through the period under consideration, the operational self-sufficiency performances of the scheme have been above 150 percent. This far exceeds all the stipulated benchmarks, that is, the benchmarks for Africa (100%), non-financial institution (87.6%), non-banking financial institutions (100 %) and nonprofit organisations (97.6%) (MIX and CGAP, 2001). Particularly, the performances of 2009 to 2012 were above 250 per cent, with the year 2010 attaining a record high of 464 per cent and rising further to 599 per cent in 2012.

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The high operational performance of the schemes is greatly attributed to the low level of cost of operations recorded by the schemes. This in an indicative that the schemes have got almost all its operating costs subsidize by donors and central government. These subsidies have consistently kept the expenditures below the realizable revenues by the schemes. For instance, major operating expenditures and costs as the provision of office accommodations, training of staff, telephone and postal charges, interest cost of loanable fund, and electricity of the Board, which all constitute the bulk of operational costs of commercial microfinance operations (Khandker, 1998) are paid for externally by the government and donors and are not recorded in the books and accounted for as part of the operating expenditures of the microcredit programme. To really determine that the Board could continue to operate and or survive will required the determination of the financial self sufficiency of the programme which is an adjustment to the operational needs to remove the subsidy components, to know the true survivability of the schemes.

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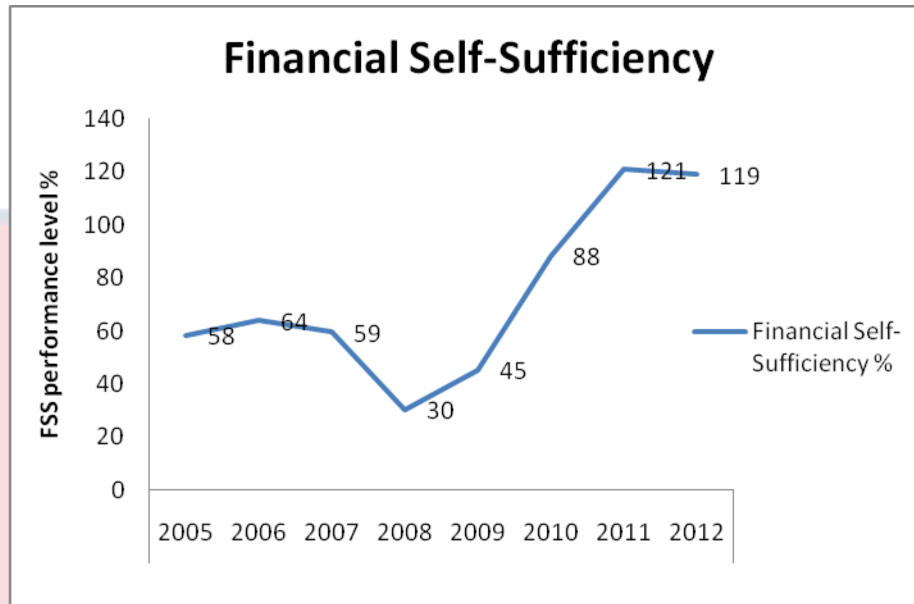

Figure 2: **Financial self sufficiency of the schemes**

Source: Author's construct, 2013

The results of the financial self-sustainability, which examines the extent of dependence on external subsidies, indicate that the scheme is not financially self-reliable (Figure 2). This means the scheme will struggle to operate if all the subsidies are withdrawn. This is as a result of the schemes not being able to generate adequate revenues from its internal operations specifically from interest income, fees and commissions to cover up operating expenditures. The low revenue is due in part to the fact that the schemes do not price it loans on commercial basis. Comparatively, interest rates charged on loan products by the schemes are not competitive and none reflective of the economic conditions, and in addition are far lower than that of commercial banks. In pricing the loans, the scheme uses the central bank's monitory policy rate as the basis. This is considered the lowest rate to borrow in the Ghanaian economy and therefore not

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appropriate to sustain a microcredit creation institution that has the objective to be commercially viable.

As presented by Figure 2, in 2005 the schemes financial self-sufficiency ratio was 58 per cent, but fell to as low as 45 per cent in 2009. In the period of 2011 the FSS position went up to as high as 121per cent from 88 percent in 2010 which suggest the scheme depended less on subsidies and relied on its internally generated funds to run most of its operations during this period. Year 2012 however saw a slight drop in 2011 performance to 119 per cent. This variations in the financial self-sufficiency performance attest to the fact that financial releases and donor supports to the regional secretariat to carry out activities and operations of the microcredit programme are not regular. As confirmed by the Hulme and Mosley (1996) that fluctuation in donor subsidies greatly affects the proper function of a microfinance operation. Such a programme will is not able to expand to reach out to wide clients (Chavan and Ramakmar, 2002)

On the comparative analysis of the scheme's performance with the industry benchmarks, the FSS ratio for the periods of 2005 to 2009 fell below the benchmark of Africa (98.8%), non-financial institutions benchmark (85.8%), non-banking financial institutions (98.5%), and non-profit organization (95.7%), but the performance of 2010 exceeded only the non-banking financial institutions and falling short of the others in the industry. The period of 2011 to 2012 saw the FSS ratio exceeding all the selected benchmarks. The current status of the schemes however suggests

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that they are not financially strong and commercially viable to operate independently. In conclusion, the scheme is not sustainable, which is similar the sentiment expressed by Hulme and Mosley (1996) in his report on Grameen bank in Bangladesh and RRBs in India.

Asset/liability management analysis of the schemes

This is an assessment of the proportion of the Board's total assets being used to provide its credit services (loans), and how the schemes are able to generate enough cashflow from operations to finance its activities. In Figure 3 and Figure 4, a detail discussion are carried on the two main ratios, analysing the performance of how the Board has managed its asset/liability in undertaking its microcredit operations, thus Yield on Gross portfolio- which is an assessment of Total cash receipts through the credit operations (liquidity); and Gross Portfolio to Total Assets- which reviews the quantum of the Board's total assets being devoted to the current loan schemes. Like Ledgerwood (1999) argues that the proper management and operational performance an institution should be base on the accounts of the application of not less that 50 percent of the total operating and performing assets into direct credit to borrower. As presented by Congo (2002) microfinance institutions should not charge too high interest on their credits such that they will frighten borrowers nor charge low interest to the point that they will not be able to raise the needed revues from operations to meet up all their major operating costs, the interest charge should fairly reflect the market conditions.

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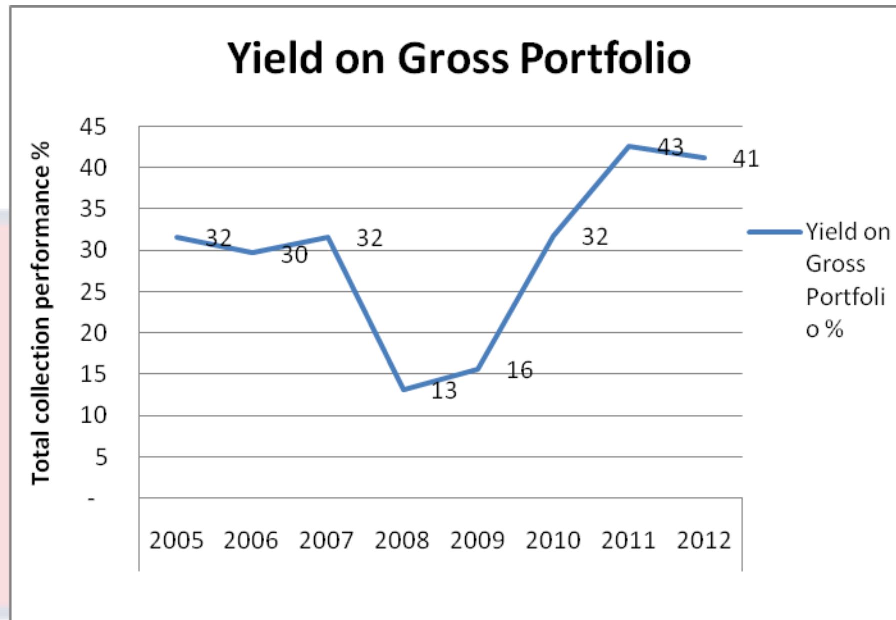

Figure 3: **Yield on gross portfolio**

Source: Author's construct, 2013

The yield on gross portfolio ratio is measuring how much the scheme actually receives in interest income, fees and commissions from operations. The total receipts to the entire portfolio, from interest charges, sale of loan application forms, penal interest charges on defaulted loans were analysed for the period of 2005 to 2012. Total receipts in 2005 were 31.58 per cent but fell sharply to 13.19 percent in 2008. The drop in cash collection during this period is attributed to lack of monitoring and recollection by officer. Under the schemes operations it is required that a debtor/borrower walk to the regional office of the Board or a designated bank (which are most often not in the easy reach of the borrowers) to make their monthly repayment to the schemes. This system of loan recollection

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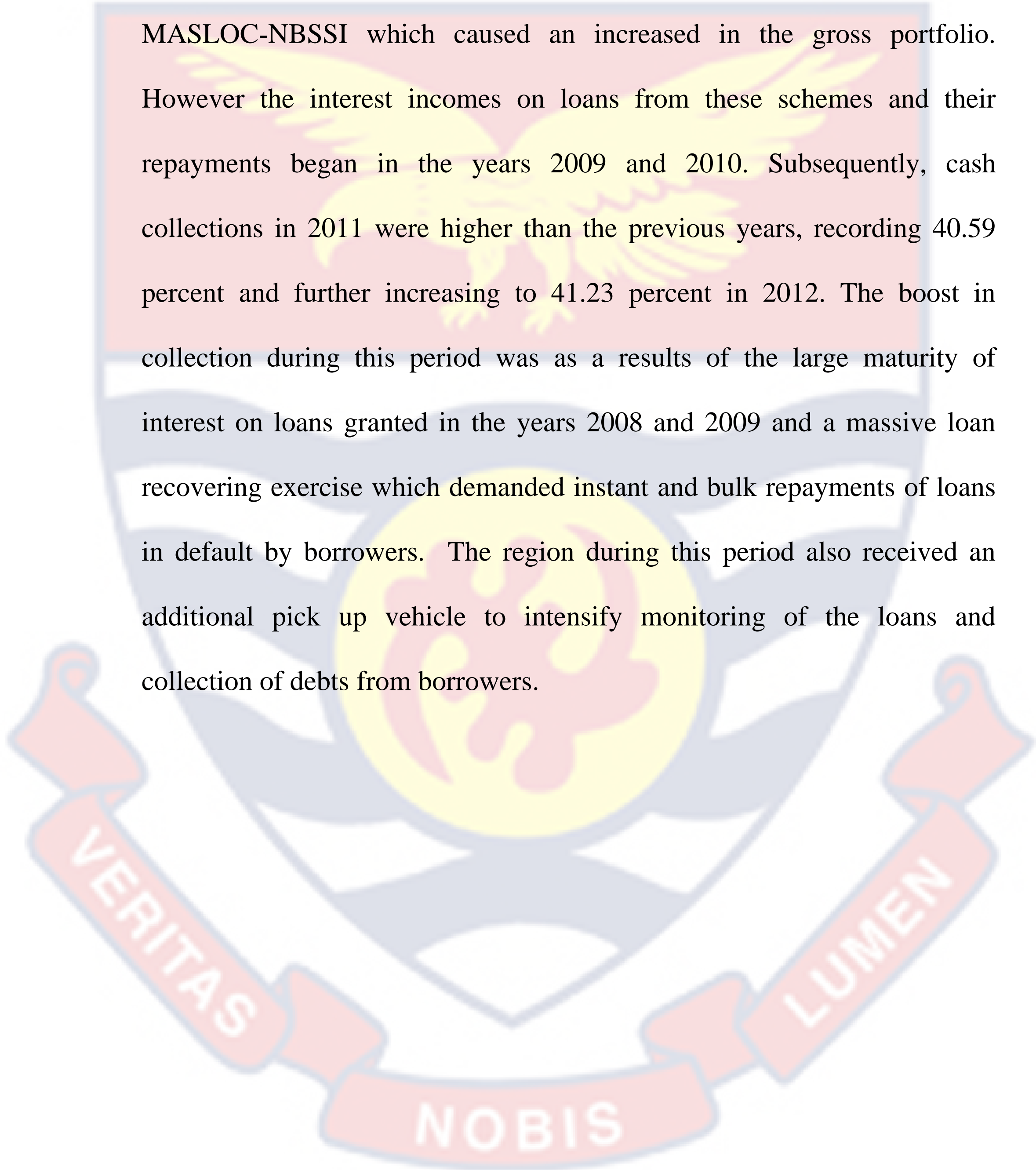
has made many borrowers of the scheme to be apathetic in honouring their regular monthly repayments.

More so, the Board in 2008 introduced a new scheme called MASLOC-NBSSI which caused an increased in the gross portfolio. However the interest incomes on loans from these schemes and their repayments began in the years 2009 and 2010. Subsequently, cash collections in 2011 were higher than the previous years, recording 40.59 percent and further increasing to 41.23 percent in 2012. The boost in collection during this period was as a results of the large maturity of interest on loans granted in the years 2008 and 2009 and a massive loan recovering exercise which demanded instant and bulk repayments of loans in default by borrowers. The region during this period also received an additional pick up vehicle to intensify monitoring of the loans and collection of debts from borrowers.



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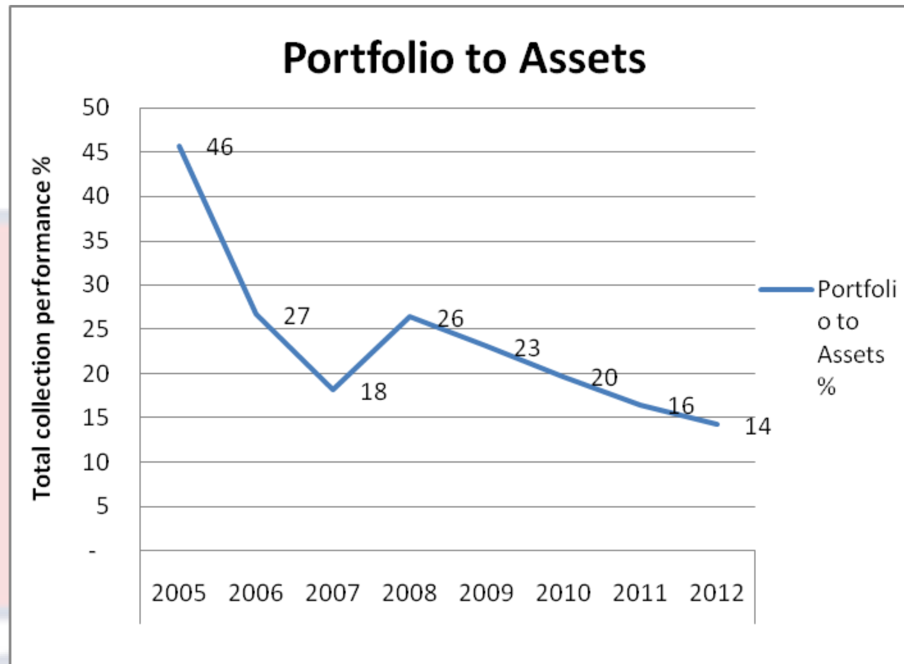

Figure 4: Total loan portfolio to total assets

Source: Author's construct, 2013

According to Figure 4, in 2005, the total loan portfolio represented 46 per cent of the total performing assets of the Greater Accra Regional secretariat of the Board. However this ratio dropped to 18 per cent in 2007, and further plunge to 14 per cent in 2012. It was however reveal that the Board has over the years increased it assets by procuring new cars, computers and accessories, furniture and fittings without a corresponding addition to it loanable funds. Furthermore the schemes receive it recapitalization from the central government and other state agencies. The flow from these sources is not regular and that, funds released are not adequate to sustain the microcredit programme, to enable the Board meet the increasing demand to the schemes.

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A comparative analysis of the Portfolio to Asset performances (as shown in Figure 4) of the schemes over the seven years period, shows all the ratios fell short of the benchmarks for Africa (63.1%), Non-financial intuitions (75.2%), Non-banking financial institutions (69.3%) and Non-profit organisations (67.2%). The facts presented above confirms the findings of Okoh and Ping (1999) indicating that the Board places less premium on it financial service and much importance on its non-financial services, hence allocating a small proportion of its total assets to its financial service to support the growth and development of the micro and small scale enterprises in the region. As established by Bhasin and Akpalu (2001) this has affected the outreach level of the schemes. More so, unlike a bank other financial institution, the Board is not required by law to meet any capital adequacy ratio.

Portfolio quality performance of NBSSI microcredit schemes

This is an examination of the aggregate quality of the entire schemes being run by the NBSSI. It involves an assessment of the level of credit risks inherent in the schemes operations and the policies and practices put in place to mitigate the risks. This examination were carried out using the ratios as presented in Table 6, that is PAR – assessing the level of contamination to the schemes due to credit risk (risk of default); Write-Off - looking at the portion of the entire loans considered bad and irrecoverable, and has been actually removed from the records of the

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scheme; and Risk Coverage – a proportion of the loans which have been fenced as a means of reducing the effect of bad loans on the entire loan portfolio (provision for bad loans). Detail results and discussions are presented in Table 6, below.

Table 6: portfolio quality performance of NBSSI microcredit schemes

		Years of operation							
		2005	2006	2007	2008	2009	2010	2011	2012
Portfolio at risk	**%**	144.2	118.1	115.3	103.9	104.5	104.1	100.0	100.0
Write-off	**%**	0	0	0	0	0	0	0	0
Risk coverage	**%**	0	0	0	0	0	0	0	0

Source: Author's calculations, 2013

Portfolio at risk analysis of the schemes

From Table 6, the quality of the schemes portfolio is highly poor and significantly risky. The schemes stand the chance of collapsing because all the loans in the schemes have been in default for over 360 days and beyond. The scheme recorded a risk level of 100 per cent and above throughout the period under review, revealing that the schemes are highly exposed to credit risk, that is the risk that defaulters will not repaying their

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loans. Ramakmar (2002) grants that high default rate threatens survivability and continuity. Comparatively, these levels of risk are far beyond the benchmark of Africa (5.9 %), Non-financial institutions (11.8%), Non-banking financial institutions (5.1%) and non-profit organisations (4.2%). The borrowers to the schemes are the micro and small enterprises who are considered high risk sector to be loaned to by the commercial banks. Their high level of indebtedness and delinquency to the schemes are deteriorating the portfolio and therefore depleting the fund (Matin, 1998) which was instituted to run "revolving".

Loans Write off

According to Table 6, the programme has never and do not write off any loan considered as bad on the schemes even when all condition points to the fact that they are doubtful and unlikely to be repaid by the borrowers. There is currently no policy in place to require officers to evaluate each loan and write them off even if they are evaluated to be bad and irrecoverable. However a careful evaluation of the Board's loan ageing report in 2012 and extrapolating from the PAR analysis in table 6, reveals almost all the loans granted to borrower are non-performing and have been in default for over 360 days and quite number of them have been defaulted for over 2 years. They will possibly not recovered if rougher measures like legal and brutish means are not adopted by the schemes managers. The absence of writing off of loans evaluating to be bad by the Board provides misleading information about the true financial and operational condition

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of the scheme. Currently it suggests all the loans are in good condition and the schemes being managed well contrary to the PAR analysis.

Credit Risk cover

The results as presented in Table 6 indicate that the schemes do not make any provision to cover up loans which are considered bad and will not be repaid. Like loans write off, the Board has no existing policy in place to create a reserve from operational revenues to cater for non-performing loans and loans which might go bad. From Table 6, it can be concluded that the schemes are in a distress state and will not be able to be insulated from eminent collapse, because its performances throughout the period of analysis has been nil.

Efficiency and productivity performance of NBSSI microcredit programme

This is to ascertain how efficient the Board has operated the microcredit schemes over the years, with a look at the average cost of operations, the productivity of the loan personnel, and the average amount the schemes are able grant out as loans to borrowers.

Detail performance records and discussions are presented by Figures 5, 6 and 7 below.

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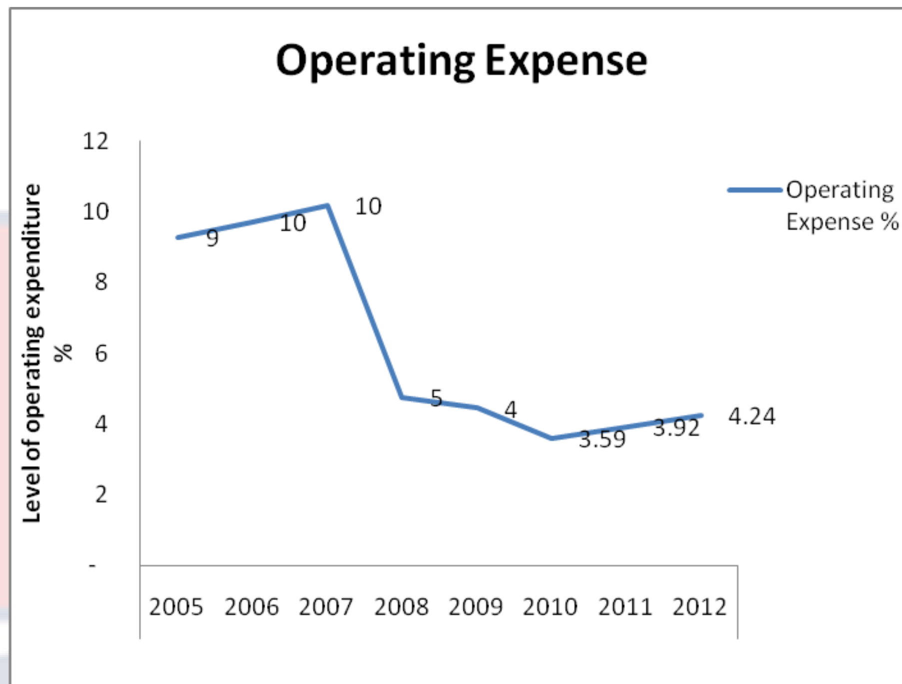

Figure 5: **NBSSI microcredit operating expenses**

Source: Author's construct, 2013

This is a reflection of the overall cost incurred in managing the loan portfolio. From Figure 5, the operating cost to gross loan portfolio hovered around 4 per cent and 10 per cent, which is far below the Africa benchmark (30 %), None-financial institutions (44.6 %), NBFI (37.6 %) and the figure of 38percent for Non-Profit Organization. This performance is therefore not conclusive that the programme has been cost effective and efficiently managed because most of these operational expenses are paid off externally by the state and donors. Cursory, examination of the records reveals the schemes do not receive regular and adequate funds for its operational activities especially to undertake monitoring of the borrowers. The

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managers receive funds averagely twice a year to carry out monitoring exercise on the loans.

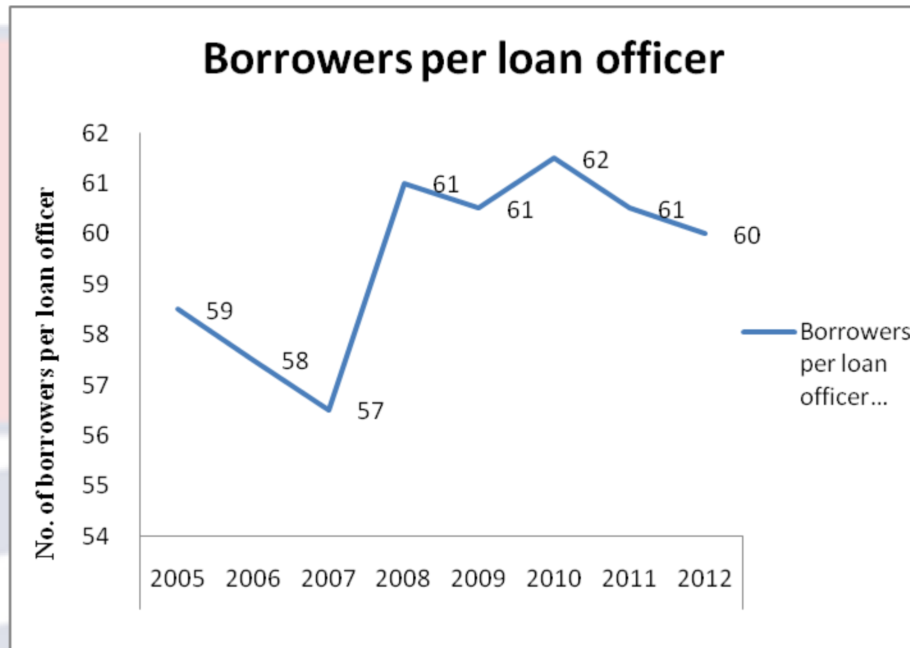

Figure 6: **Borrowers per loan officer**

Source: Author's construct, 2013

A loan officer in the Greater Accra office of the Board is responsible for supervising and monitoring not less than 50 clients (Figure 6). From 2005 to 2007, an officer of the programme handled an average number of 58 beneficiaries, and this increased to an average number of 60 and 62 beneficiaries between 2008 and 2012 as a result of additional loan facilities from its MASLOC scheme which began in 2008. Moreover the entire microcredit schemes in the Greater Accra region is being managed and monitored by two officials at the regional secretariat. They are the manager of the Regional Secretariat and the Regional Project Officer. They have the full responsibility of ensuring the effective and the efficient

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management of the schemes. Their tasks involve the receipt and processing of loan applications, reviewing project proposals, assessing and evaluating the borrower for their financial credit worthiness. Though the recorded averages of borrowers to a loan officer from the Board's operation compared to the benchmarks falls below the required ratios of Africa (234), Non-financial Institution (250), Non-banking Financial Institution (213) and Non-profit Organisation (283), yet the officers are unable to effectively monitor all these borrowers. This is due to the wide and dispersed nature of the borrowers across all the ten districts in the Greater Accra Region. These two officers have to constantly visit borrowers on regular basis to assess and monitor their status and also insist on repayment to the schemes. This tiresome act is contributing to the high defaulting rate of the schemes.

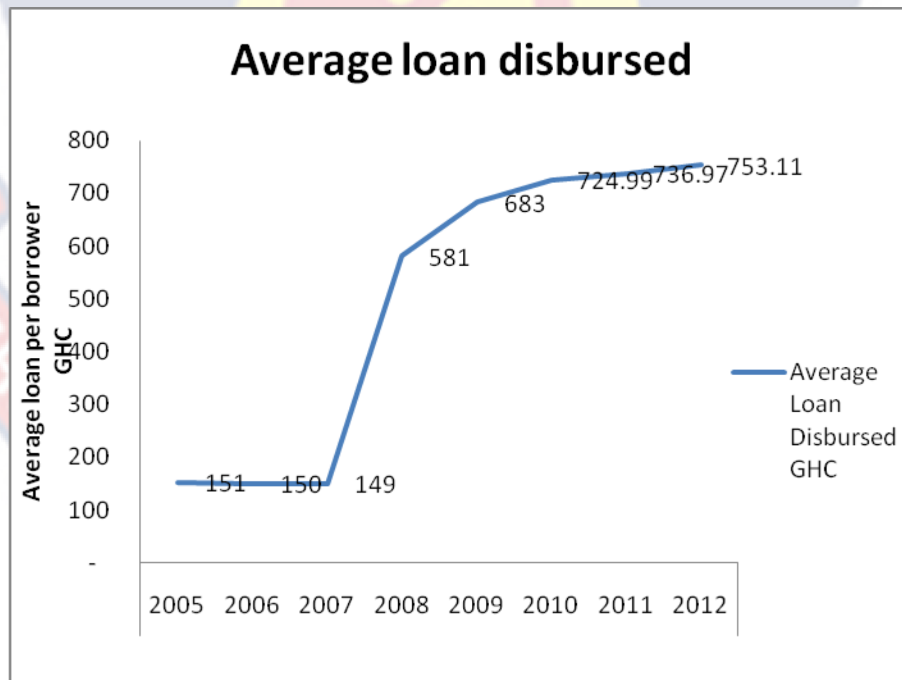

Figure 7: **Average loans disbursed**

Source: Author's construct, 2013

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From Figure 7, the average loan from the board's financial programme to beneficiaries has been between GH¢150 and GH¢750 per project. This truly establishes that the Board's financial programme is microfinance, because these are small loans which are only suitable for micro and small businesses. The average loan per borrower has grown overtime due to the introduction of other credit schemes. The PAMSCAD Creditline, one of the earliest schemes granted a minimum amount of GH50 as loan to a project. The introduction of the NBSSI-REVEOLVING Fund Scheme to the programme afterward rose the loan per project to a minimum of GH¢500. In the year 2008 the Board began the operation of the NBSSI/MASLOC credit scheme which boosted the average loan per borrower. The scheme granted loans of a minimum of GH¢ 3,000 and a maximum of GH¢25,000 to the micro and small businesses. In spite of the fact that there is an appreciation in the average loans per heard, these values are still considered not significant enough to support bigger project from most beneficiaries.

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CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

Introduction

This chapter is generally about the summary, conclusions and recommendations on the study. The text in this chapter is divided into three sections. The first section presents summary and the second section, on the conclusions drawn from the findings. The third section deals with the recommended strategies aimed at improving upon the performance and survival of the credit schemes.

Summary of findings

Generally, the study was to evaluate the performance of NBSSI's microcredit operations. Specifically, it sought to determine how sustainable the schemes are; to establish how effective the Board has deployed it resources into its microcredit operations and the schemes ability to generate adequate cash from its operations (assets-liabilities management); to identify the quality (inherent risks) of the portfolio; and to show how efficient the programme has been operated. The analysis of the operational performance of the programme has brought to fore some important finding and issues which are worth noting.

First, the commercial sustainability of the programme is fragile and will struggle to survive if its current state of financial and operational performances persists. The OSS and FSS analysis reveals the schemes depend much on government and donor funding to finance most of its

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activities. For instance, most of the operating costs such as, salaries for officials, cost of loanable funds, electricity, office rent, and cost of staff training, which constitute the bulk of operating costs of commercial MFIs, are paid for by the central government and donor agencies. The programme therefore is not operationally self-reliant. Furthermore, it was discovered the schemes have remain financially not self-sufficient because it does not generate adequate revenues from its operations. It has over the years failed to charge commercial rate of interest on all loan products.

Second, it was established from the assets-liabilities management analysis that the Board devote a small proportion of it total assets into the operation of its microcredit programme. This has resulted in the programme not having sufficient funds on the loan portfolios to provide many and large credits to support many MSEs. Besides, the yield on gross portfolio unveil that, the cash collections by the programme are very low compare to the industry's benchmark. The programme as a whole has weak and ineffective collection system, and in addition lacks regular and efficient monitoring on borrowers.

Third, the quality of the loan portfolio was established to be very low, because the schemes are highly exposed to credit risk. The current loans outstanding on all the schemes are in default. Almost all the borrowers have exceeded the agreed repayment periods of twelve (12) months and twenty-four (24) months. The high default rate has contaminated the schemes and might lead to depletion in the loanable

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funds. In addition, there is currently no policies on “write off” of loans considered bad, and “risk cover” (i.e. provision for bad loans) to reduce the negative effect of nonperforming loans on the entire portfolio. The high default rate couple with weak operational policies has exposed the schemes to the threat of collapsing.

Four, analysis on the operational efficiency of the schemes revealed that the programme is not operationally efficient. Thought it has continually recorded minimal costs in its operations, most of the activities and operations of the programme ware indirectly paid for by the central government and donors, with the Board having no record of these expenditures and therefore could not be captured in the books. Likewise, the programme does not receive adequate and regular funds to implement most of its planned operational activities. Also, the management of the programme is administered by only two officers who find it very difficult to monitor an average of 60 borrowers per officer, as these borrowers are dispersed across all the ten districts of Greater Accra Region. The average loans disburse from the schemes to borrowers ware identified to be very small. They are considered inadequate and unsupportive of bigger projects from some of the MSE operators.

Conclusion

From the analysis made on the data collected and the strength of the summary of the findings on the schemes operational performance, the

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following conclusions are drawn. That, the schemes are not commercially viable; there are inadequate loanable funds on the portfolios; the schemes cannot generate adequate income internally; they are bedevil with high credit risk; the current system of loan recollection is ineffective and inefficient; and that there are not enough officers to monitor all the borrowers.

Recommendations

To enable NBSSI improve upon the performances of its microcredit schemes and enhance their operations, the following suggestions are offered.

To make the scheme viable and it operations sustainable, the Board must avoid solely depending on subsidies to fund its operations. They must charge the appropriate commercial rates of interest (slightly lower than the prevailing commercial banks) on loan products. In addition the Board must take the appropriate fees and commissions on services render to loan applicants, so as to increase it internally generated fund.

Second, to increase the loanable fund and grant large loans, it is advised the current Legislative Instrument (LI) establishing the National Board for Small Scale Industries be amended to give the Board the right and authority to access commercial sources of funds. Likewise the state can create a statutory fund in the example of GET fund, NHIS fund, etc. to provide regular and guarantee source of funds to the schemes.

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Third, to reduce credit risks, The Board must adopt group base lending. This will not only help reduce the level of loan delinquency and increase the repayment rate, but the tendency of joining the liabilities of all members in that breath, places social and moral obligation on each borrower to repay his/her loan. Furthermore, all assets purchase by borrowers using the loan facility, be jointly registered in the names of both the Board and the client (take a lien on the assets). This will give the Board the legal right to disposed of the asset in the event of default by the borrower, to recover the loan. The current operational policies and procedures of the programme must be amended to include bad loans "write off", "provision for loan impairment" and "loan risk cover" to safe guard and sustain the quality of the schemes.

Fourth, the Board must involve its Business Advisory Centres (BACs) located across all the districts the region in the loan disbursement and recollection. These BACs must be tasked to constantly visit and monitor borrowers located in their districts on regular basis (at least twice a week), to encourage the borrowers to honour their monthly repayments to the schemes.

Limitations of the study and Suggestions for future research

This study were limited by it stern reliance on only secondary sources of data to draw its conclusions without inculcating primary sources of information from managers, and the selection of Greater Accra

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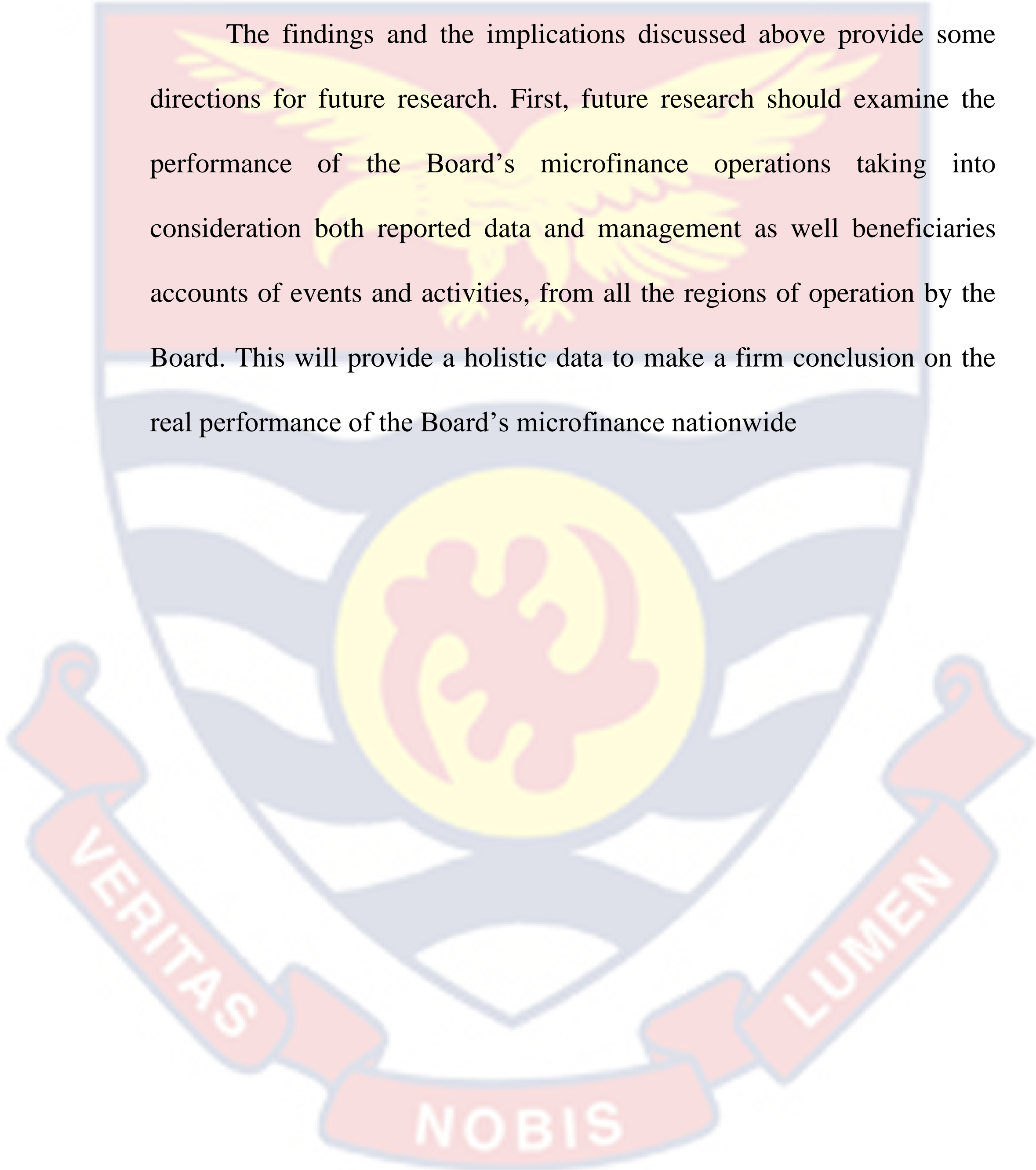
to represent the Board as a test case for the study which might not provide the true reflection the entire operational performance of the Board microfinance nationwide

The findings and the implications discussed above provide some directions for future research. First, future research should examine the performance of the Board's microfinance operations taking into consideration both reported data and management as well beneficiaries accounts of events and activities, from all the regions of operation by the Board. This will provide a holistic data to make a firm conclusion on the real performance of the Board's microfinance nationwide



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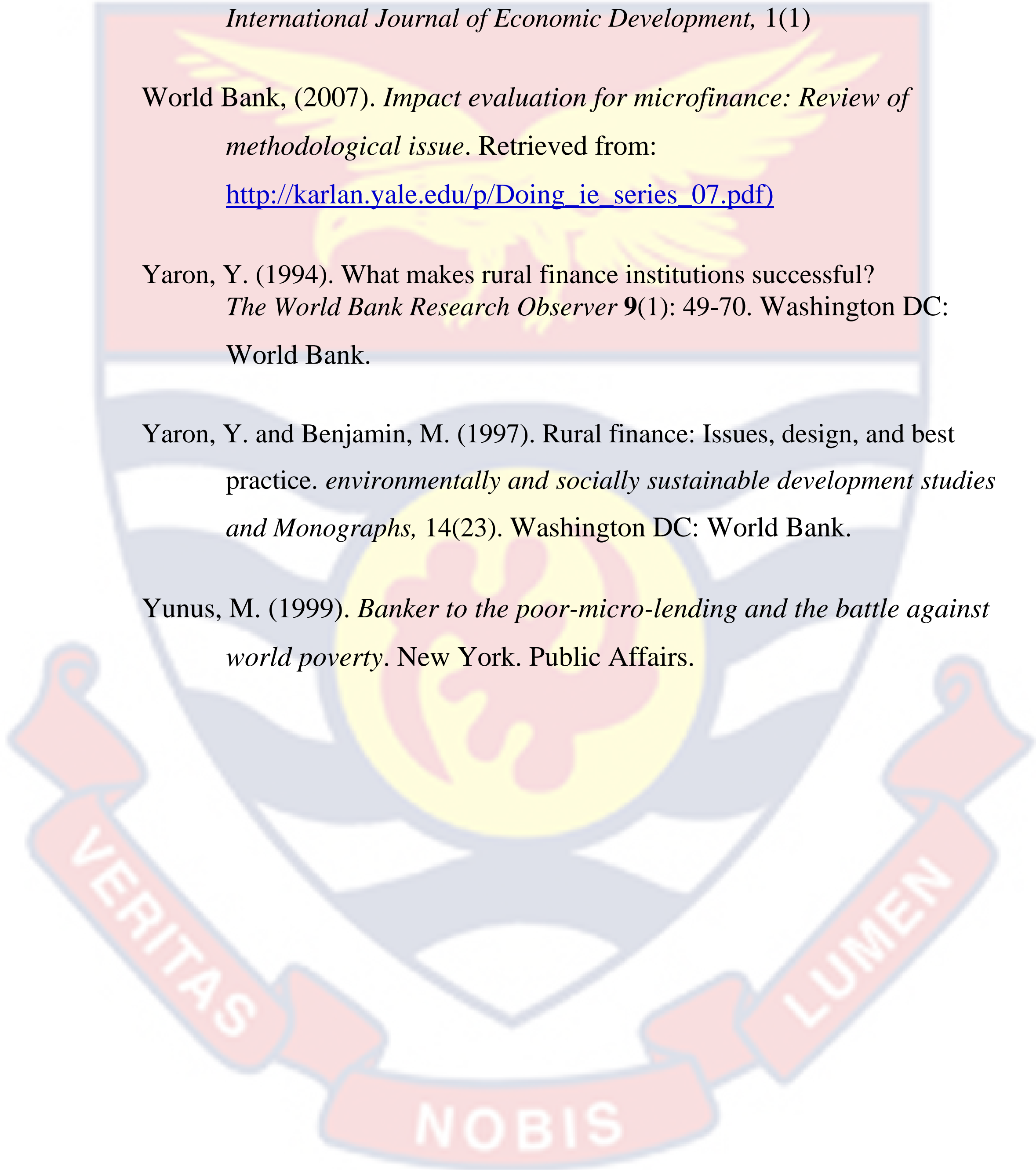

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Appendix 1 – Data set analysis sheet (1)

Year of Report	Schemes	Financial Revenue (Interest & penal Interest)	Cash/Fees & commission (interest paid and sale of application forms)	Operating expense	Gross loan portfolio	Total number of loans Outstanding	Value of Disbursed Loan	No of Active loan	No. of staff personnel	Number of loan personnel	Average Gross Loan Portfolio
2005	Revolving fund	2,564.12	3,614.53		28,964.02	96	14,036.90	63			
	PAMSCAD	4,275.47	587.72		10,954.20	132	3,685.70	54			
	MASLOC	-			-	0		0			
		6,839.59	**4,202.25**	**3,705.00**	**39,918.22**	**228**	**17,722.60**	**117**	**15**	**2**	**13,306.07**
2006	Revolving fund	2,812.30	3,463.53		29,964.02	96	13,586.90	61			
	PAMSCAD	4,275.47	587.72		10,954.20	132	3,685.70	54			
	MASLOC	-			-	0		0			
		7,087.77	**4,051.25**	**3,980.00**	**40,918.22**	**228**	**17,272.60**	**115**	**20**	**2**	**13,639.41**
2007	Revolving fund	2,728.67	3,724.23		29,964.02	96	13,586.90	61			
	PAMSCAD	4,275.47	987.72		10,954.20	132	3,285.70	52			
	MASLOC	-			-	0		0			
		7,004.14	**4,711.95**	**4,170.00**	**40,918.22**	**228**	**16,872.60**	**113**	**22**	**2**	**13,639.41**
2008	Revolving fund	2,652.71	3,586.34		29,964.02	96	13,586.90	61			
	PAMSCAD	4,275.47	987.72		10,954.20	132	3,286.70	52			
	MASLOC	-			54,000.00	9	54,000.00	9			
		6,928.18	**4,574.06**	**4,514.00**	**94,918.22**	**237**	**70,873.60**	**122**	**25**	**2**	**31,639.41**

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	Revolving fund	2,528.67	3,791.21		29,964.02	96	12,586.90	58			
	PAMSCAD	4,275.47	987.72		10,954.20	132	3,285.70	52			
2009	MASLOC	5,228.07	1,641.78		66,800.00	11	66,800.00	11			
		12,032.21	**6,420.71**	**4,789.00**	**107,718.22**	**239**	**82,672.60**	**121**	**21**	**2**	**35,906.07**
	Revolving fund	2,528.67	3,791.21		29,964.02	96	12,586.90	58			
	PAMSCAD	4,275.47	987.72		10,954.20	129	3,286.70	52			
2010	MASLOC	12,239.83	7,418.72		73,300.00	13	73,300.00	13			
		19,043.97	**12,197.65**	**4,103.00**	**114,218.22**	**238**	**89,173.60**	**123**	**22**	**2**	**38,072.74**
	Revolving fund	2,528.67	3,791.21		29,964.02	96	12,586.90	58			
	PAMSCAD	4,275.47	987.72		10,954.20	129	3,286.70	52			
2011	MASLOC	18,556.25	11,475.46		73,300.00	13	73,300.00	11			
		25,360.39	**16,254.39**	**4,472.00**	**114,218.22**	**238**	**89,173.60**	**121**	**21**	**2**	**38,072.74**
	Revolving fund	2,528.67	3,391.21		29,964.02	96	12,586.90	58			
	PAMSCAD	4,275.47	987.72		10,954.20	129	3,286.70	52			
2012	MASLOC	22,489.41	11,882.93		74,500.00	13	74,500.00	10			
		29,293.55	**16,261.86**	**4,894.00**	**115,418.22**	**238**	**90,373.60**	**120**	**21**	**2**	**38,472.74**

Source: compiled from NBSSI Greater Accra Regional Secretariat 2005 to 2012 quarterly and annual loan and operational reports

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Appendix 2 – Data set analysis sheet (2)

Year of Report	Schemes	Assets	PAR>30	Renegotiated loan	Loans written off	Impairment loss allowance	Average Number of Active clients	Adjusted Financial Revenue	Adjusted Financial Expense
	Revolving fund		28,964.02	7,823.00	-	-			4,489.42
2005	PAMSCAD		10,954.20	9,852.00		-			1,697.90
	MASLOC		-	-	-	-	-	-	-
		87,418.22	**39,918.22**	**17,675.00**	**-**	**-**	**39.00**	**6,839.59**	**6,187.32**
	Revolving fund		29,964.02	6,523.00		-			3,745.50
2006	PAMSCAD		10,954.20	895.00	-	-			1,369.28
	MASLOC		-	-	-	-	-	-	-
		153,336.44	**40,918.22**	**7,418.00**	**-**	**-**	**38.33**	**7,087.77**	**5,114.78**
	Revolving fund		29,964.02	5,612.00	-	-			4,045.14
2007	PAMSCAD		10,954.20	651.00	-	-			1,478.82
	MASLOC		-	-	-	-	-	-	-
		226,254.66	**40,918.22**	**6,263.00**	**-**	**-**	**37.67**	**7,004.14**	**5,523.96**
	Revolving fund		29,964.02	3,265.00	-	-			5,093.88
2008	PAMSCAD		10,954.20	452.00	-	-			1,862.21
	MASLOC		54,000.00	-	-	-			9,180.00
		359,927.88	**94,918.22**	**3,717.00**	**-**	**-**	**40.67**	**6,928.18**	**16,136.10**
	Revolving fund		29,964.02	4,568.00	-	-			5,393.52
	PAMSCAD		10,954.20	325.00	-	-			1,971.76

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2009	MASLOC		66,800.00	-	-	-			12,024.00
		467,646.10	**107,718.22**	**4,893.00**	**-**	**-**	**40.33**	**12,032.21**	**19,389.28**
	Revolving fund		29,964.02	4,326.00	-	-			4,045.14
	PAMSCAD		10,954.20	387.56	-	-			1,478.82
2010	MASLOC		73,300.00	-	-	-			9,895.50
		581,864.32	**114,218.22**	**4,713.56**	**-**	**-**	**41.00**	**19,043.97**	**15,419.46**
	Revolving fund		29,964.02	-	-	-			3,745.50
	PAMSCAD		10,954.20	-	-	-			1,369.28
2011	MASLOC		73,300.00	-	-	-			9,162.50
		696,082.54	**114,218.22**	**-**	**-**	**-**	**40.33**	**25,360.39**	**14,277.28**
	Revolving fund		29,964.02	-	-	-			4,494.60
	PAMSCAD		10,954.20	-	-	-			1,643.13
2012	MASLOC		74,500.00	-	-	-			11,175.00
		811,500.76	**115,418.22**	**-**	**-**	**-**	**40.00**	**29,293.55**	**17,312.73**

Source: compiled from NBSSI Greater Accra Regional Secretariat 2005 to 2012 quarterly and annual loan and operational reports

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Appendix 3 – Interest rates for data adjustments

Bank of Ghana's Prime Rates From 2005 to 2012

Year	year-end rate (%)
2005	15.5
2006	12.5
2007	13.5
2008	17
2009	18
2010	13.5
2011	12.5
2012	15

Source: Bank of Ghana (2013)

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