THE IMPACT OF MICROCREDIT ON HOUSEHOLD EXPENDITURE AND BUSINESS PERFORMANCE IN THE CONTEXT OF GHANA

BY

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OCTOBER 2023

A THESIS SUBMITTED TO THE UNIVERSITY OF HERTFORDSHIRE IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

ABSTRACT

This thesis explores the impact of microcredit on household expenditure and business performance in Ghana. It aims to provide a detailed analysis of the impact of microcredit, contribute to the understanding of microcredit as a tool for economic development, inform policy, and ultimately help improve the lives of borrowers who benefit from microcredit programmes. The study is grounded in the fundamental theoretical underpinnings of access to credit and financial exclusion. This framework highlights the importance of financial inclusion, characterised by equitable access to financial services, in promoting economic wellbeing and reducing poverty marginalised populations. Microcredit plays a vital role in this context by providing small loans to those typically excluded from traditional banking systems due to factors like low income, lack of collateral, or poor credit history. By focusing on these theories, the study offers valuable insights into how microcredit interventions can enhance household expenditure and business performance, thereby improving the borrowers' living standards. The study used purposive sampling to collect primary data through a survey of OISL's 200 borrowers and 25 staff using questionnaires and interviews, respectively. The research employed a mixed methodology approach to gather and analyse the data. Multiple regression and qualitative analyses were used to present the findings.

Findings from the thematic analysis show that households accessing microcredit reported increases in expenditures on essential household items and a subsequent impact on business performance after borrowing compared to before borrowing. The impact of microcredit and its effectiveness on the standard of living of borrowers depends on specific factors. The study concluded that substantial evidence shows microcredit impacts household expenditures, supporting the alternative hypothesis. Additionally, the findings show that, on average, there is a positive correlation between microcredit and household expenditure and business turnover. They indicate that participating in a microcredit programme improves living standards, with increases in borrowers' household expenditure and business turnover at a statistical significance level. Therefore, the study accepts the alternative hypothesis that microcredit impacts household expenditure and business turnover.

This study makes significant theoretical contributions by significantly advancing the understanding of microfinance's impact on economic outcomes. It provides empirical evidence on how microcredit affects household expenditure and business performance, examining key variables. Also, it emphasises the importance of socio-economic contexts in shaping the effectiveness of microfinance interventions, contributing to the development of more tailored strategies for poverty alleviation and economic development. The methodological contributions include evaluating the

impact of microcredit on economic outcomes by combining quantitative and qualitative methods. The integration of regression analysis with thematic analysis provides a detailed understanding of the data. Additionally, the study sets a high standard for research instrument design, ensuring accuracy and reliability of the findings and contributing to the advancement of research methodologies in the field of microfinance. The study's findings have significant policy implications for microfinance theory and practice. The evidence of microcredit's impact on household expenditure and business performance informs policymakers and microfinance institutions about key factors for effective microcredit programmes. Including socio-economic contexts in the analysis highlights the need for strategies tailored to specific contexts, indicating the need for customised approaches and offering insights for more efficient and sustainable microfinance interventions, ultimately contributing to more effective poverty alleviation and economic development efforts.

This study acknowledges limitations in relying on self-reported survey data, constraints on sample size due to geographic or demographic factors and its cross-sectional design, which may introduce biases and restrict the ability to establish generalisability and causality. Future research should consider longitudinal designs and broader, more diverse samples to refine these findings.

DEDICATION

I want to dedicate this work to my beloved wife, Linda, my children, and my mother, Madam Grace Affi Appeaning, and honour the memory of my late father, Mr Lawrence Osei Addae.

ACKNOWLEDGEMENT

The pursuit of a PhD degree is a significant and demanding endeavour that requires a great deal of effort and support. I deeply appreciate God Almighty for His unparalleled wisdom, grace, and favour extended throughout this journey. Without His boundless mercy, this challenging endeavour would not have been feasible.

I sincerely appreciate the guidance, enthusiasm, and support provided by my supervisors, Prof. Hulya Dagdeviren, Dr Aarti Rughoo and Dr Shahzavar Karimzadi, during the course of my research. Their extensive knowledge and warmth of character have been a source of inspiration and have greatly influenced the development of my thoughts and ideas presented in this thesis.

I am indebted to Prof. Malcolm Harper and Dr Georgios Katechos for their insightful and invaluable comments during my Initial Registration Assessment and Doctoral Review Assessment, respectively. I am immensely grateful to Dr Francesca Gagliardi, members of the Doctoral College, and Hertfordshire Business School for their unwavering support, concern, and encouragement. Their invaluable contributions have greatly aided in my progress and development.

Finally, I must express my utmost gratitude to my entire family, particularly my dear wife, Mrs Linda Osei Nyarko and our beloved children Affi, Nana, Owuraku, and Ohene. Their unwavering encouragement, presence, support, and selfless sacrifices were instrumental in successfully completing this project. I cannot thank them enough for being accommodating through thick and thin. May an abundance of blessings be bestowed upon each one of you. I want to express my gratitude to my parents, especially Madam Grace Affi Appeaning, whose gentle but ingenious nudges supported me throughout my education. Regrettably, Mr. Lawrence Osei Addae passed away before seeing my achievements, but his memory inspires and motivates me. Special thanks to Mr Patrick Kyei, Head of Marketing, and Mr Moses Denteh, Ashaiman Branch Manager, as well as the staff of OISL and their clients who participated in this study.

Table of Contents

List of Figures

List of Tables

List of Abbreviations

ARB- Association of Rural Banks

ASSFIN - Association of Financial Non-Governmental Organisations

BoG- Bank of Ghana

BRAC-Bangladesh Rural Advancement Committee

BRDB-Bangladesh Rural Development Board

CGAP – The Consultative Group to Assist the Poor

CU- Credit Union

CUA- Ghana Cooperative Credit Union Association

DFID- Department for International Development

FNGOs-Financial Non-Governmental Organisations

GCSCA - Ghana Cooperative Susu Collectors Association

GHAMFIN - The Ghana Microfinance Institutions Network

HIPC- Highly Indebted Poor Countries

IFAD-International Fund for Agricultural Development

MASLOC-Microfinance and Small Loans Centre

MDAs - Ministries, Departments, Agencies

NBFI-Non-Bank Financial Institutions

OISL – Opportunity International Savings and Loans Limited

PAMSCAD-Programme of Action to Mitigate the Social Cost of Adjustment

RCBs-Rural and Community Banks

S&Ls- Savings and Loans Companies

UNDP-United Nations Development Programme

WACB - British West African Currency Board

INTRODUCTION TO THE STUDY

0.1 Introduction and Statement of the Problem

Microfinance is a crucial tool that has held out hope for alleviating poverty in many developing countries (Gibbons and Meehan, 2002; Armendariz de Aghion and Morduch, 2005). It offers financial services to low income and poor households, enabling them to start micro businesses, increase their income, save money, smooth consumptions, manage risks, and eventually break free from the cycle of poverty. Moreover, microfinance is considered a crucial catalyst in achieving the United Nations' Sustainable Development Goals (SDGs) (Srinivas, 2023). Implementing microfinance has proven to be a feasible solution for addressing poverty reduction, fostering economic growth, and supporting other SDGs, such as ending hunger, achieving gender equality, and developing resilient infrastructure, which are key components of several SDGs. The author also pointed out that microfinance can create employment opportunities and provide access to credit for low-income individuals, empower individuals, enhance financial management and savings, and offer micro-insurance.

Meanwhile, the historical data reveals that the economy of Ghana has been growing since 1960. The economy has a diverse and rich resource base, which has given the country one of the highest GDP per capita in West Africa. Therefore, today, it is one of the leading economies in the region. As a result, poverty has been relatively reduced, which is a condition to satisfy the Sustainable Development Goals embraced by global leaders in 2000 (Harsch 2008). However, currently, the poverty reduction level has become somewhat static. Mpoke and Kpodo (2014) believe that Ghana is slowly losing the admiration it had earned in Africa. Ndulu (2008) explained that part of the problem could be the failure to implement proven economic reforms. The lack of economic reforms represents serious problems in attempting to reduce poverty levels. Based on the literature, strengthening microfinance institutions, instruments, and policies could be a breakthrough (Annim and Alnaa, 2013; Ghosh, 2012; Alnaa and Ahiakpor, 2015). While some studies have shown that microfinance could effectively create employment, build an economy, and, most importantly, reduce poverty and improve beneficiaries' living standards, other studies have disputed these claims. At one point, Mohammed Yunus suggested that microfinance is deemed a human right requirement. Microfinance, according to the key supporters in the area, can provide efficient and effective long-term financial services to poor and at-risk-of-poverty households. These households would otherwise find getting loans from traditional banking institutions challenging because they lack collateral security.

However, relegating the enthusiasm on microfinance for a while, and with the different viewpoints, questions need to be asked: Does microfinance work? Does it contribute to enhancing the standards of living for persons at risk of poverty? What factors influence the impact of microfinance on beneficiaries? These questions and other issues have led researchers to investigate whether microfinance actually works and reduces the risk of poverty in the Ghanaian context.

The risk of poverty itself is a great obstacle to economic development (Burlingham 2008; Veritta 2008). Research indicates that poverty risk can seriously limit a nation's potential, but growth becomes inevitable if managed successfully. Therefore, while there are several ways to improve an individual's welfare and standards of living conditions, some are more result-generating than others. Various studies demonstrate that those offering support to individuals in the form of loans seem to be more effective. Successive governments in Ghana, over the years, have initiated various national development policy frameworks directed at reducing the risk of poverty and enhancing the common wellbeing of the people. However, Asenso-Okyere et al. (1993) noted that policies started by these governments became ineffective. The policies included the Economic Recovery Programme (started in 1983) and supported by programmes such as the Programme of Action to Mitigate the Social Cost of Adjustment (PAMSCAD) and the Ghana Vision 2020. Again, the

Ghana Poverty Reduction Strategy was devised to enable Ghana to benefit from a significant measure of debt relief available under the Highly Indebted Poor Countries (HIPC) programme. The strategy was as well to position the country in an improved macroeconomic environment to address critical issues of at-risk of poverty and associated problems on an emergency basis. Nevertheless, due to constraints and challenges, these intervention programmes produced mixed results in reducing poverty risk (Boateng et al., 2015).

Boateng et al. (ibid) noted that the idea of encouraging and sustaining microfinance in Ghana to offer capital for and ensure growth and sustainability, which traditional commercial banks ignored, was considered. According to principal proponents in the field, this genre of financing has what it takes to resourcefully and effectively offer feasible financial services to poor and at-risk of poverty, emerging entrepreneurs, and small-scale businesses. Again, microfinance has the potential to reach a large number of poor people (Kohn 2013; Zhang 2010). These categories of people are often otherwise excluded from the traditional and common financial systems for lack of collateral. Despite the arguments put forward by microfinance advocates, it has also attracted some criticisms. Critics often argue that microfinance has to achieve its goals and produce results justifiable to the stakeholders for it to be considered worthwhile. Some studies have identified failings in the purported role microfinance programmes should play.

However, despite the reported proven benefits of microfinance, Ghana is presently fighting poverty. Ghana has more than 6.2 million poor or low income people, which is approximately 20 per cent of the total population (Nyarko 2014). The fact that its poverty levels are not reducing much in the midst of a multitude of microfinance institutions' activities seems to raise a point of influences that may be impacting the established and transformative power of microfinance. Some studies have reported operational irregularities as being one of its core problems. In spite of the effort made by studies to further investigate the issue of poverty reduction in Ghana, I am yet to identify in the literature a major study exploring the factors that affect the impacts of microcredit to improve the living conditions of beneficiaries in the context of Ghana.

Therefore, this study attempts to fill the gap from a broader perspective by exploring the elements that influence the impacts of microcredit on beneficiaries' living standards and business performance.

0.2. Significance of the Research

Like other nations, Ghana desires to reduce the number of individuals who are poor or at risk of poverty. Considering previously implemented strategies and programmes, it will not hesitate to consider any strategy seen as a panacea to lessen the difficulties the country encounters. However, studies on microfinance's contributions to poverty reduction, particularly the necessary conditions for microfinance to thrive, predominantly in rural Ghana, appear to be lacking.

This is in spite of the fact that there is a relative abundance of literature on the subject in the remaining parts of the world, including but not limited to Latin America and Asia. The concerns of Asiama and Osei (2007) further buttress the point of the lack of literature on microfinance in Ghana, and the neo-classical theories that existed in other parts of the world cannot be generalised and applied to countries under different contexts. They stated that the absence of adequate and reliable information on microfinance remains one of the most challenging in the sub-sector. They continued that the "lack of information has affected targeting of clients and ultimate poverty reduction" (Ibid 2007:17). Under these circumstances, this study represents a relevant endeavour to help reduce the gap in knowledge of the impacts of microfinance on reducing poverty. Firstly, it acknowledges that Ghana has the potential to reduce the incidences of at-risk-of-poverty and poverty in general and whether microfinance can be a key to doing so when the vital factors are identified. Besides, if the answer is affirmative, will the results in a different context, like Ghana, vary or remain the same even for the effect of a similar provision? This is against the background that Deaton and Cartwright (2016) note that each study is context-specific. Secondly, as a local study, it builds upon the existing research. The findings may update the formulation of policies and implementation of programmes in the microfinance industry, particularly in Ghana. Therefore, this can perhaps boost the already existing poverty alleviation programmes of the MFIs.

0.3 Aims and Objectives of the Study

The main aim of this study is to examine the fundamental elements that influence the impacts of microcredit in improving the standards of living in Ghana.

The overarching research question of this thesis is: What factors enhance or limit the impacts of microcredit to improve the standards of living of beneficiaries in the context of Ghana. The answer to the research question will be delivered through a number of sub-questions. The research question is chunked into two major questions and their matching sub-questions.

The first major question investigates the key factors that enhance or otherwise the impact of microcredit on the living conditions of beneficiaries. The second major question aims to assess and examine whether microcredit impacts the living standards of beneficiaries as indicated by household expenditure and general economic wellbeing. In order to achieve the above objectives and answer the research question, this study formulated the underlisted key questions and sub-questions:

a) What factors affect the impact of microcredit on business turnover and the living standards of beneficiaries?

1) To what extent do household characteristics account for the success or failure of microcredit?

2) To what extent do borrowers' loan and business characteristics affect the outcomes of microcredit?

b) Does microcredit impact the living standards of beneficiaries, as measured by household expenditure?

1) What is the impact of microcredit on the business performance of borrowers?

2) What is the impact of microcredit on the household expenditure of beneficiaries?

Following the literature review on the debates around microfinance and the determination of the approach that would drive the research process, the abovementioned main and sub-questions were developed in subsequent chapter. They are provided here to demonstrate the research logic's progression. The above mentioned research question is addressed in chapters 4 and 5.

The first main research questions and the sub-questions will be addressed in chapter 4. In the chapter, the study uses a qualitative research approach to examine the factors that increase or limit the effectiveness of microcredit on business and improve the standards of living of low-income beneficiaries in Ghana. The second major and supplementary questions will be answered in Chapter 6. This will be executed by finding the microcredit's size and nature impact on the credit beneficiaries' living standard, as measured by household expenditures. The analysis will also include the kind and the extent of the impact on the business performance, specifically the business turnover, of borrowing households.

0.4 Microfinance and Microcredit: Scope and Operational Differences

In the literature, microfinance and microcredit are often used interchangeably. However, they actually refer to different concepts within the field of financial services. Both terms are important for providing financial services to underserved populations, such as low-income individuals and small businesses. In this study, I will differentiate between microfinance and microcredit and explain how these terms will be used in the thesis.

Rotich, Lagat and Kogei (2015) explain that microfinance encompasses a range of financial services provided to individuals and businesses with low incomes. These services are offered by different types of providers (MFIs) and now include formal financial services tailored for low-income individuals and those marginalised from traditional financial systems (Meki 2024; CGAP 2013; Armendariz and Morduch 2005, 2010). The discussion has expanded beyond just providing credit to encompass savings accounts, insurance, money transfers, and other financial and non-financial services or products that help individuals manage risks, build assets, and improve their economic situation. This broader perspective recognises the need for diverse financial services, informed by empirical work and comprehensive ethnographic studies and financial diaries. It is important to note that MFIs provide these services with little or no collateral, as their clients often earn low incomes and live below the poverty line. These individuals require financial services to operate sustainable businesses, build their assets, and manage associated risks. Therefore, adopting microfinance has significantly broadened the scope of financial inclusion, extending beyond the provision of microcredit by offering various financial products alongside essential financial education, impacting economic development and poverty alleviation.

On the other hand, microcredit specifically refers to the provision of small loans to low-income households, individuals or small businesses that do not have access to traditional banking services due to a lack of steady income, collateral, or credit history. Its primary objective is to support and provide capital for entrepreneurs who cannot obtain the financial backing needed to start a small business or capitalise on an idea, thereby helping to increase income and promote economic self sufficiency. Microcredit is a core component of microfinance but is often used in the literature interchangeably with the broader concept of microfinance. This is because microcredit was one of the earliest and most visible forms of microfinance, popularised in Bangladesh through initiatives led by the Grameen Bank. As a result, many people use the term microcredit to refer to the full spectrum of financial services, including savings, insurance, and money transfers, offered by microfinance institutions, despite the broader scope of microfinance (Opportunity International, 2024; Armendáriz de Aghion & Morduch, 2005).

In the course of the study there will be an attempt to distinguish between the broader range of financial services offered by microfinance and the specific lending practices known as microcredit in order to ensure precise and accurate discussions. However, in line with the study's objectives to examine the factors affecting the effectiveness of microcredit, and the specific definition of microcredit used in this study, unless otherwise specified and explained, the terms microfinance and microcredit will be used interchangeably to refer to the services provided by MFIs to low-income individuals, households, and businesses.

0.5 Contribution to Knowledge

Although some research has been conducted on microfinance and its impact on poverty reduction levels in both developed and developing countries, I am unable to find extensive research carried out in the reviewed literature on the impact on living standards in rural Ghana. Much of the literature on microfinance focused on Asia, and the results of these studies are not fully relevant for African economies. Practitioners in Africa may have tweaked the microfinance models that worked in Asia to fit the conditions in Africa, and lessons learnt from Asia and Latin America experiences may not be applicable (Mknelly and Kevane 2002). Yeboah (2010) confirmed that studies on microfinance institutions and their effects on poverty related in Ghana have mostly replicated versions of the Grameen model. This has resulted in employing very little documented knowledge of its applicability and relevance to the Ghanaian context, especially in rural areas. Therefore, microfinance studies need to be contextualised to suit the study area.

Another noticeable distinction is the population density, which gives economies of scale in Asian countries, according to Sam Daley-Harris, director of the Microcredit Summit Campaign[1]. He noted that it is easier for a financial institution to reach many clients next door to each other than it is to reach a similar number of clients spread out in rural areas, which is why so much microfinance in Africa is mostly urban. The locations where microfinance is practised in these two regions are not the same; therefore, the results cannot be generalised and transposed from one region to another.

Moreover, given that microfinance appears to vary immensely and is available to a diverse range of people in a variety of contexts (Goldberg, 2005; Odell, 2010), it is important to take into account what is known about the various types and models of microfinance, as well as whether or not they are effective, for whom, and under what circumstances. Although the level of evidence is steadily growing, a quick search of the bibliographic literature and more extensive overviews of the data (Duvendack et al., 2011) shows that the bulk of microfinance and related evaluations still come from Asia, where the microfinance movement began. MIX & CGAP (2011), Armendáriz de Aghion and Morduch (2011), and Fischer and Ghatak (2011) all make the case that microfinance functions differently in various regions depending on factors like population density, attitudes towards debt, group cohesion, enterprise development, financial literacy, and financial service providers. The study notes that there is a growing need to comprehend the data from sub-Saharan Africa, one of the world's poorest countries where development aid is proportionally substantial (United Nations, 2008) and where the bulk of service providers in the microfinance sector are still non-profit organisations (MIX & CGAP, 2011).

In the area where microfinance predates the more well-known microbanks like Grameen Bank, international bodies are increasing their support in a wide range of microfinance programmes (MIX & CGAP, 2011; World Bank & DFID, 2010). These comprise cooperative-based savings and

[1] Nyairo, B. (2007)

lending groups and credit unions. In addition, the microfinance sector in Africa is expanding while still being concentrated in a small number of countries (MIX & CGAP, 2011). This presents an opportunity for research to influence decision-making, particularly considering that international agencies are preparing new initiatives to build capacity in the region and looking for both stakeholder input and proof of effectiveness (World Bank & DFID, 2010).

Furthermore, much of the available literature adopted a binary approach, e.g. whether microcredit reduced poverty or not. This study aims to disaggregate the factors into those with positive and negative effects on outcomes. In this context, the study aims to add to the existing literature on the microfinance industry by essentially investigating the factors by separating them into the components that influence the impacts of microcredit to improve beneficiaries' living standards from a wider perspective.

Again, the literature focuses more on the impact of microfinance programmes from the perspective of microfinance institutions themselves rather than from beneficiaries of microfinance services, which can be detrimental to the latter. Some previous studies in the microfinance industry carried out are under the general umbrella of institutional sustainability and outreach of MFIs' services, and the few impact studies have not been comprehensive (Hulme and Arun, 2009). Some studies also have been riddled with criticism for their data, spatial coverage and weakness in methodological approach. Besides, some recent studies showed imperfections when the characteristics of beneficiaries and microfinance sustainability had not been fully explained. Besides, much of the available research has focused on improving the industry rather than proving impact (Hulme, 1997).

In light of the above positions, the study is considered relevant. It aims to spotlight the fundamentals of microfinance benefits and the influences that explain microfinance's effectiveness on living standards. The findings will be expected to help address and advance towards a better understanding and fill the gap in the literature on the microfinance industry in Ghana. This will help policymakers and other stakeholders make informed future decisions concerning the microfinance sector.

0.6 The Scope of the Study

This study examines the factors that explain the successes and failures of microcredit to improve the service users' living conditions. Therefore, the empirical study sample will be obtained directly from Opportunity International Savings and Loans Ltd (OISL) microfinance programme participants in the survey areas. Data that will be collected from the OISL staff and official documents of the institution will be used for the purposes of augmenting the information collected from the clients to appreciate how the institution's programmes work. Attempts will be made to increase the generalisability of the study by thoroughly choosing a community representative of the survey area of the study. Furthermore, it is worth noting that this study focuses on microfinance clients who are individual loan borrowers. It excludes the clients who borrow in groups and, therefore, have joint responsibility. Their experiences as clients are not captured in this study. Time and resource limitations, in addition to the respondents' acuities of the primary topics in question and their preparedness to make available truthful information, are all constraints to the study.

0.7 Structure of the Study

This thesis is organised into the introduction and six chapters to meet the stated objectives. The individual chapters attempt to address the different research questions of the study. It is arranged in a coherent sequence in order to find answers to the research questions.

The introduction section presents a quick overview of microfinance and provides the research problem. It also outlines the details of the significance of the study's research, the aims and objectives, and the proposed research questions. The rest of the chapter includes the study's contribution to knowledge and the scope and limitations.

The crucial topic of low income individuals' access to traditional financial services, along with the challenges and how they can be addressed, is examined in Chapter one. Particularly in emerging and developing economies, emphasis has grown on the problems of financial exclusion and access to credit. Financial services offer a significant opportunity to many individuals in their economic lives, including salaries, savings, purchases and pensions. A portion of the population, however, is unable to access even the most fundamental financial products and services, incurring considerable costs. These individuals or groups are unintentionally excluded from the use of financial services. Therefore, the chapter outlines the methods Ghana employs to identify the best ways to encourage financial inclusion and improve access to financing. It also includes finding strategies to mitigate the effect of financial exclusion. It is hoped that, ultimately, the chapter gives the essential theoretical context to the study. In addition, the chapter presents the state of the art on microfinance. It examines the different literature and perspectives on poverty with the research problem identified in chapter one in mind. It helps to determine the scope of the problem and supports defining and clustering the research questions. While some studies report significant and positive impacts of microcredit interventions, others find negative or no impacts. Therefore, the chapter attempts to identify possible gaps in the literature on microfinance and refine the research questions of the thesis. This forms the basis of the study. Particular attention is paid to the contextual factors and methodological challenges in the impact evaluations. Finally, the chapter presents reflections on the literature reviewed and discusses the theoretical underpinning and the hypothesis of the study.

Chapter two provides the contextual background for the study of microfinance in Ghana. It begins by providing the geographical and economic context of the country where this study takes place. It discusses the extent of the population with low incomes and at-risk poverty in Ghana and the different strategies (under different political and economic developments and climates) the successive governments employed to address these issues. The changes and growth timelines experienced have been grouped under six sub-periods of policymaking phases. Next is a thorough examination of the microfinance sector in the country and how it has progressed over the years vis-à-vis the types of MFIs, the financial regulatory framework, the level and degree of outreach and the difficulties the sector faces. Lastly, the chapter profiles the MFI (OISL) used as a case study, including their missions, programmes, outreach and key features.

Chapter three describes the research strategy and technique used in this study. It begins with discussing the research methodology, and presents brief section that formulates the research questions and the sub-questions. The mixed methods as a methodological framework are chosen, and a brief clarification on how it will be used at different phases of the study process is provided. This is followed by a discussion of the survey conducted in Ghana. It involves a detailed description of the selection and choice of indicators and variables used for designing the questionnaire for data collection in the field. Also, the rationalisation of the geographical coverage and the selection of the interviewees will be explored. Finally, the techniques for analysing the research data are presented. The qualitative and quantitative data were independently examined before being merged to address the research questions in chapters four and five.

Chapter four presents the empirical evidence of factors affecting microcredit to answer the third research question: whether microfinance has improved and enhanced low-income earners' household standards of living and lifestyle. What factors related to business considerations of the MFI have impacted the clients? How have the business indicators of the borrowing household changed? In order to achieve the objectives, the study uses a qualitative research approach to examine the factors that increase or limit the effectiveness of microcredit on business and improve the standards of living of low-income beneficiaries. The data source includes a survey questionnaire designed for the service users and semi-structured interviews with the staff of the OISL at different local branches. The success is evaluated from two perspectives: the service user's perspective and the microfinance institution's perspective. Nevertheless, the user's perspective will be the major emphasis of the chapter, in keeping with the study's objectives. Also, a summarised description of the preliminary results on the demographics and the socio-economic characteristics of the studies' participants is presented in part. The chapter's findings provide insights into microfinance literature.

Chapter five focuses on answering the following questions: Does microcredit have an impact on the living standards of beneficiaries? What is the nature and size of the impacts of microcredit on household expenditure and the business performance of borrowers? In answering these questions, descriptive analyses and particularly stepwise multiple regression analyses are used to examine each independent variable's statistical significance or contributory impact on household expenditure and business turnover (dependent variables). The independent variables employed for the study are the household size, interest amount, business size and working capital, total loans and loan cycle. It is worth noting that the gender, marital status, age, level of education of the borrower and the number of years in business are the control variables.

Finally, the study is summarised in Chapter six, which contains the concluding section of this study. The significant findings are identified and discussed. The thesis' contribution to the state of knowledge in microfinance is explained in the process. The chapter ends with the identified policy implications, limitations, and suggestions for further studies.

CHAPTER ONE

1.0 FINANCIAL EXCLUSION AND MICROCREDIT – A LITERATURE REVIEW

1.1 Introduction

The preceding chapter presented the background of the study. It introduced the topic and statement of the problem and provided the justification and significance of the study. Also, the chapter discussed the aims and objectives of the study. Whereas the aim set out what the research wants to achieve at the end of the study, the objectives, on the other hand, defined the measurable outcomes and the specific steps to be taken to address the study's overarching aim. The chapter provides how the study will fill the gaps and build on previous research. The scope and the structure of the study concluded the chapter.

This chapter examines the increasingly important and challenging area of difficulty faced by low-income individuals when accessing mainstream financial services and how it can be addressed. The issues of access to finance and financial exclusion have been of growing attention, particularly in emerging and developing economies. Financial services provide a crucial opportunity to many individuals. The majority of these people use bank accounts to pay their expenses and receive their wages. Pensions allow people to acquire homes while also saving for retirement. However, some people lack access to even the most basic financial products and services, resulting in significant expenses. The expansion and infiltration of financial services in a modern economy mean that people who cannot access such services find themselves facing considerable challenges. In Ghana, some individuals or groups are unintentionally excluded from using financial services. A significant group include the individuals and businesses who essentially may not have adequate assets to pledge as collateral, a consistent work history, or a verified credit record in the eyes of commercial financial institutions and markets due to inadequate income or present too high a lending risk.

Others categorised under this group may consist of people who lack financial information or are discriminated against. Flaws in product features or price barriers caused by market imperfections may also render a product unsuitable for some groups. Nonetheless, offering customised microfinance solutions can empower individuals and communities by promoting financial inclusion and fostering social cohesion (Pluskota 2020). The author continued that the expansion of financial services has been shown to effectively combat poverty and mitigate its impact on society, particularly for those who are most poor. As a result, it is crucial to establish institutions that are willing to serve low-income individuals who may require smaller loan amounts and have limited financial resources. Unfortunately, the commercial banking sector is not interested in serving this customer group due to a lack of credit history, loan security and financial status.

Meanwhile, the poorest are unable to accept the commercial conditions of cooperation. Microfinance offers a viable solution to increase the availability of basic financial services, a recognized tool for fighting social and financial exclusion, as well as poverty worldwide. The European Commission and Armendariz de Aghion and Morduch (2005) agree that microfinance effectively fights poverty and promotes social transformations. Microfinance provides financial services to poor or low-income individuals. It includes programmes that aim to improve their living conditions by offering health care, education, training, and support for social enterprises. These tailored microfinance offers empower the target groups to break the cycle of poverty.

According to Alińska (2008), microfinance institutions serve a wide range of individuals from various social and professional backgrounds. They can be classified into major categories. These include the unemployed, those at risk of poverty, females, young professionals, immigrants, farmers, small business owners, and rural residents. In 2017, microfinance served 139 customers, mostly females (83%), with a portfolio value of almost USD 114 billion (Microfinance Barometer, 2018). Microfinance institutions now use modern technologies and alternative distribution channels such as ATMs and mobile phones to reach more people. Although commonly associated with the world's poorest regions, microfinance is equally important in more developed nations. Microfinance products serve individuals in both industrial and developing countries where commercial banks do not serve small transactions. While the customer profile may vary in wealthier countries, the goal remains the same: to improve the lives of the borrowers and their families, focusing on females, socially excluded individuals, the unemployed, and microenterprises. Microfinance institutions have various products and objectives, but their primary aim is financial inclusion, according to Grazioli et al. (2020). Regardless of their size or location, these institutions strive to enable access to financial services, including the most basic ones, for as many people as possible. In addition to financial inclusion, microfinance institutions provide education to promote the rational and conscious use of financial products. Enhancing financial awareness and knowledge is crucial to increasing access to and usage of banking products. According to Muhammad Yunus, microfinance is an effective tool for addressing this issue. Nowadays, microfinance is not limited to microcredit but includes a wide range of products and much-needed financial education. Informed use of financial services can prevent many of the problems associated with excessive debt (ibid). Therefore, one can postulate that the attempt to use microfinance as a form of credit for the poor and low income groups or to lessen the effect of financial exclusion has given rise to the spread of microfinance in some parts of developing countries.

In summary, the chapter discusses the strategies used by Ghana (in the sub-Saharan region) to find the right approaches to promote financial inclusion and better access to finance. It also includes finding strategies to mitigate the effect of financial exclusion. Overall, the chapter provides the essential context for the study.

1.2 Financial Exclusion and Access to Finance

Many developing economies are finding the right methods to promote financial inclusion[2], namely, better access to financial services for low-income or poor households and firms, as part of their general strategies for economic and financial development (Morgan and Pontines, 2014). This causes questions about whether a correlation between financial inclusion and poverty could be established. That is to say, does a move away from financial inclusion contribute to an increase in the rate of at-risk poverty? Financial services play an important role in most people's lives. Many of these people depend on bank accounts to settle their bills and receive their salaries. For instance, as mentioned earlier, products like mortgages and pensions assist individuals in acquiring their homes and saving for their future. However, a section of the global population lacks access to even the most basic financial products and services and subsequently exposes themselves to substantial costs. Less than half the population in many developing nations have some access to financial services, and in most places, particularly in Africa, less than one in five households has access (Beck et al. 2008). According to the authors, the lack of access to finance is often one of the crucial vehicles for creating persistent income inequality as well as slower economic growth.

Moreover, financial inclusion has been identified as a strategy to facilitate the reduction of poverty and promote prosperity. Nevertheless, around 2 billion people globally lack access to formal financial services, and most adults of this number in the poorest households are 'unbanked' (World Bank 2017). Perhaps this may have prompted the President of the World Bank, Jim Yong Kim, to put forward an ambitious global goal to reach Universal Financial Access[3] (UFA) by 2020.

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[2] Financial inclusion refers to individuals and businesses who have access to useful and inexpensive financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way (World Bank 2017).

[3] The UFA2020 envisions that adults, who currently do are not part of the formal financial system, have access to a transaction account. The focus is mainly on the countries where 73% of all financially excluded people live. Through targeted interventions, the aforementioned people will be able to save money, send and receive payments that will act as the basic building block to manage their financial lives. Up to the present, the World Bank Group and some 32 partners have pledged commitments towards achieving the universal access (World Bank 2017).

Whether this aggressive UFA enterprise can be achieved in time remains to be seen owing to the apparent less effort being channelled into reinforcing the mechanism to bolster access to finance. Besides, just a few of the various governments' policies and programmes have effectively achieved the desired results.

In spite of the gains made towards financial inclusion, a projection of a fairly large proportion of people globally do not have access to a basic account (Demirgüç-Kunt et al., 2015) and are excluded from the formal financial system. The lack of enough money is among the reasons for the high number of incidences. Generally, 59 per cent of adults without an account alludes to this as a key reason (World Bank 2017). This appears to postulate that financial services are still expensive and conceivably are not intended to reach within the means of low-income earners. Additional barriers such as minimum account and loan balances, account fees, documentation requirements, insufficient education, religion, the distance from a financial provider and lack of trust in financial service providers also negatively correlated with outreach. These barriers exclude a fairly huge percentage of the population from using banking services in many countries (Beck et al. 2008; World Bank 2017). According to the authors, sections of the population are more financially excluded than others: Rural poor, females, and other inaccessible or hard-to-reach populations; likewise, informal micro and small firms are most affected. For instance, in developing countries, the gender gap is approximately 9 percentage points. That is, 59 per cent of men are reported to have an account relative to only 50 per cent of females in 2014. This means the rest are financially excluded and cannot access useful and reasonably priced financial products and services such as credit, transactions, insurance and payments that meet their needs.

In recent times, Ghana has experienced growth in expanding local bank branch outreach and increasing foreign bank entry. This has culminated in increased commercial banks from 11 in 1990 to 24 in mid-2008, with nearly 500 branches nationwide. During the same year, the accumulative assets of the banking system contributed to nearly 52 per cent of the GDP by increasing about 88 per cent to reach approximately 7 million dollars[4]. Nonetheless, the available data on financial exclusion from the World Bank (2008) did not correspond with the increase in banking services, with more people financially excluded thereupon. Aryeetey (2004) reports that the collection of savings has been very low, particularly in rural areas of Ghana, where there was inadequate institutional organisation, and a positive return on saving has been practically absent. According to the present literature, the aggregate composition of financial exclusion has numerous definitions and dimensions. This is frequently grounded in diverse socio-economic factors with complex interactions.

The term financial exclusion has been used in a wide range of contexts, but it is frequently used as a general concept describing an absence of access to and the use of a range of financial services in an appropriate form (Brown 2007; Chant Link & Associates, 2004; Kempson et al. 2008; Koku 2015; Lämmermann 2013; Osei-Assibey 2009). More precisely, the term has been used to reflect certain circumstances such as geographic exclusion, exclusion owing to extremely high charges, exclusion from marketing segmentation, or even exclusion based on self-beliefs (Kempson 2006). Furthermore, it has been postulated that it originated by geographers when there were concerns about a section of the people who lacked savings of any kind (Leyshon and Thrift 1993). However, it was widely used to describe people whose limited access extended to all mainstream financial services (Kempson and Whyley 1999). Therefore, the term is closely related to poverty and low income and tends to be geographically focused, with many financially excluded people living in

[4] Besides, there are 125 RCBs with nearly 500 branches or agencies in the country with the principal goal of extending mainstream banking services to the rural and poor population. The system was conceived to match their socio-economic circumstances and the distinctiveness of their occupation in farming and craft making. In addition to their branches, rural banks form the biggest banking network in Ghana and the leading in the rural financial system. (Bank of Ghana 2008)

areas of high deprivation. Also, there is a common perception that financial exclusion forms part of a much broader social exclusion faced by a section of the population who lack access to quality essential services such as jobs, housing, education or healthcare.

Nonetheless, financial exclusion must be defined within a specific financial development context of a country since different factors perhaps determine financial exclusion in different countries. For instance, in Ghana, financial exclusion is expressed in a set of circumstances where the majority of individuals, households, enterprises, and communities have no engagement whatsoever with mainstream formal financial institutions (Osei-Assibey 2009). Nevertheless, the core exclusion category is included in the financially excluded population, often referred to as the 'unbanked' and do not indeed have a basic bank deposit account. Helms (2006) reports that this group, also known as the "forgotten half" of microfinance, would want a savings deposit account, as studies have shown and would aspire for the benefits of formal bank accounts. Despite the desire, they are often bound by low incomes, and few saving institutions are available on the market for such smallholder balances and transactions. Whereas account-holders who are depositors are highly placed to negotiate investments so far as the savings can serve not only as collateral but also as a demonstration of income and financial discipline, financial institutions are reluctant to lend to the unbanked (Solo 2005). Despite the strong competition developed in the banking sector over the years, some banks claimed to have downscaled by channelling their effort to increase access by reaching the huge yet new market of the unbanked rural.

Nevertheless, a glance at the situation gives a different outcome. Many of these banks instead concentrate their efforts in the urban areas, particularly in the southern geographical parts of the country, to the disadvantage of the north and the rural communities. Many of the banks are reluctant to reach out or are known to have closed down the branches set up in rural areas for various reasons. Surprisingly, even the rural banks that were set up to serve the needs of rural areas by mobilising and giving finance to farmers and small businesses have essentially curbed the expansion of branch networks to these areas. Rather, most focused on open branches in the big cities and district capitals.[5] This perhaps reflects the somewhat high level of geographic exclusion as reported by recent World Bank (2017) branch penetration indicators. The latest indicators show, among others, that there are nearly 7.1 commercial bank branches per 100,000 adults in Ghana. Although this is an increase from the previous of 6.0 in 2014, it is still considered relatively low compared to the world average of 12.5[6].

Nonetheless, suppose consideration is given to the argument made by Kempson (2006) that the absence of physical access to a bank significantly increases the psychological barriers to using banking services. In that case, commercial banks' decision to either open or close a branch in a community is vital for all-inclusive financial services and its secondary impact on poverty reduction. Therefore, this raises the question of what factors influence a bank's decision to open a branch in a local community or reach out to new clients other than its own internal mechanisms. Suppose these banks ultimately set up new branches; do they survive in the new locations if the demand for their services is inadequate? What role do the MFIs play in meeting the demands of rural households with or without the presence of the banks? In Ghana, for instance, Aryeetey (2004) notes that much less liquid productive assets, such as livestock, buildings, land, etc., are preferred by a high number of rural households as there are some costs anticipated to be identified with financial assets that deter households from holding them. Partially, this may have contributed to

[5] Although there are semi-informal and informal providers, which include Savings and Credit Unions, MFIs and NGOs; and Susu schemes, that engage in rotating savings and credit associations (ROSCA) are present in some rural communities, they either are prevented by banking regulations or lack the capacity to mobilise savings on the large scale. Generally, both the semi-formal and the informal sectors often cater for the lower ends of the market but it will be intriguing to investigate whether these activities complement or substitute for the formal banking sector but obviously this is outside the area of this study. Nevertheless, it is worth mentioning that some of the commercial banks have begun to join forces with some Susu schemes to open an account and save the monies collected from market women and other members on their behalf, for instance, Barclays Ghana Susu Scheme.

[6] Source: World Bank; URL: https://data.worldbank.org/indicator/FB.CBK.BRCH.P5?locations=GH

certain banks closing their branches in some rural areas because of low patronage. In effect, this can hold true for voluntary self-exclusion, as will be discussed later, perhaps because of religious or cultural reasons as well as illiteracy or affordability and eligibility issues[7]. On the other hand, solid evidence correlates having a bank account with an increase in the prospects of savings (Reddy et al. 2005). Meanwhile, having a reported large labour force in the informal sector and being paid by cash instead of having their wages deposited in a bank account signifies that most of these people do not engage in savings because they do not have a bank account.

Brown (2007) notes that financially excluded people usually present the following features: 1) A need for a bank account and its associated financial services. 2) A dependence on substitute forms of credit such as doorstep lenders and pawnbrokers. 3). A need for additional key financial products such as saving products, insurance and pensions. He further states that those incapable of accessing basic financial services spend more to manage their money, experience a laborious task to plan and are more likely to become over-indebted. Perhaps one can argue that because financial exclusion typically exacerbates individual and household financial difficulties, it can make them vulnerable and expose them to illegal or high-cost lending.

1.3 The Causes of Financial Exclusion

Financial consumers are not homogenous, and the reasons for financial exclusion are diverse and multifaceted. Furthermore, the number of consumers affected largely hinges on the product sector. The underlying causes have been categorised under similar broad groups by both Kempson et al.

[7] Beck et al. (2008) note that the minimum amount required to open a savings account in Ghana is 22.69% of GDP per capita. Meanwhile, the number of documents such as identification, payment slip, letter of reference, proof of address or rent agreement etc. to open such account is 3.24 from a scale of 5. Whereas the first may demoralise households with low-income earners, the latter perhaps exclude people of certain age bracket, migrants and the majority in the informal sector from gaining access.

(2008) and the Financial Inclusion Centre (FIC) (n.d). Both grouped the causes under external environmental/societal, supply and demand factors, with the FIC adding on individual factors.

The external environmental or societal category of factors examines the social determinants that have an impact on financial exclusion. Factors include the wider socio-economic and demographic change, such as the changing labour market structures, the ageing population, the rising number of single people and single parents[8] and political trends, such as the transfer of risk and responsibility from state and employers to individuals. In addition, the technological gap has been regularly mentioned to increase financial exclusion. This may be due to the increasing market developments. Currently, financial services companies are implementing increasingly sophisticated technologies to segment the market into different sections according to profitability or risk. This may result in some of the consumers being totally denied access to products and services.

Moreover, the products and services of these financial services are expected to be used by consumers to secure their future against any risk, and these developments may increase the risk factor if the needs of vulnerable consumers are unmet. Likewise, the government and regulatory policy can have inadvertent ramifications on consumers, unintentionally contributing to financial exclusion or making it difficult for consumers to provide for themselves. Although this may be the case, these market innovations can, in spite of that, benefit many consumers.

Furthermore, there are demand side difficulties that consumers have to overcome, which otherwise will become barriers to engaging with financial services. These can affect their capacity and ability to make well-informed choices and decisions. The demand side consists of the prospective consumer's priorities and concerns and, likewise, the cultural environment in which they live. This is a critical determinant of an individual's discernment of their personal and psychological

[8] Studies show a strong correlation between the level of income inequality (measured by the Gini coefficient) in a country and the incidence of financial exclusion. Moreover, societal changes such as the rising number of single people and single parents, as well as other demographic evolutions, increase people's vulnerability to financial exclusion. The regulatory context and a government's policy in the social and economic field should also be mentioned (Kempson et al. 2008)

relationship with money and their perception of the financial sector. In addition, the FIC records other demand barriers, such as the lack of awareness of the potential consumers, the need to plan and provide for their future and to shop around for better deals and the low levels of financial literacy and capability. The consumer's trust and confidence in the financial market and the impact of external factors such as the property market have also been mentioned. To a certain degree, one may argue that these barriers can cause individual consumers to 'self-exclude' themselves to the disadvantage of their welfare. Accordingly, it is unsurprising that the government and other main players seem to be investing vast resources to improve consumers' financial capability and help them effectively participate in the market. Essentially, this begs the question of which interventions are effective at changing behaviour and whether a significant outcome has been achieved considering the size of the resources spent.

On the supply side, consumers may be excluded due to factors relating to how the financial services industry functions and is structured. These take into consideration a financial institution's criteria for accepting a client, its risk assessment requirement and the fees it charges for access to its services. These may cause an individual to be declined for bank service and also act as a strong impediment to a potential client requiring a particular financial service. Similarly, this category consists of the problem of the institution's geographic location, which, in many cases, becomes a major cause of financial exclusion. Other causes include inefficient regulation, the basic economics of access, complex products, oversupply in the market and diseconomies of scale. The rest are public policy interaction, distribution inefficiencies and ineffective competition. Although a financial market may be competitive, having several providers and thousands of products on offer does not always work in the consumer's interest. Distribution cost also seems to increase when many products are offered in the retail investment and pensions sector. This is because of fierce competition among providers who use expensive advertising and commission payments to ensure financial advisers and intermediaries sell their products. Ultimately, businesses would rather 'churn' existing customers than attract genuine ones. Generally, the inadequacies in the distribution system can bring additional costs, making products more expensive and excluding more consumers on lower-medium incomes. In addition, there is a perception that benefits derived from economies of scale may not be realised when there are many products and providers. This adds extra cost to the consumer than is necessary if the market functions. Effective regulation is pivotal, as it needs to find the right balance between providing an appropriate degree of consumer protection to increase confidence in the markets and simultaneously allowing businesses to operate to meet consumers' needs. Needless to say, business regulations do not benefit anyone but rather add to costs for the industry, which are then transferred to customers, thereby widening the exclusion gap. Although weak regulation creates uncontrolled lending and unnecessary risk-taking behaviour by a section of the financial services industry, there is the need to avoid overregulation to not aggravate the industry's behaviour, becoming more risk-averse.

Finding solutions to both the demand and supply barriers to access will produce a helpful environment for retail financial services providers to cover a wider range of consumers. Nonetheless, it is worth noting that, admitting these policies become successful, a number of consumers will still be uneconomically unavailable for mainstream financial providers because of the basic economics of access. Therefore, workable and ground-breaking solutions are necessary to meet the needs of these consumers.

Another cause of financial exclusion comprises income levels and other individual circumstances, including disability. Currently, perhaps it has become noticeable that income levels and affordability contribute to current levels of financial exclusion. People on lower incomes may be unable to pay for financial services because of market practices such as risk-based pricing. Besides, a low marginal propensity to save (MPS) can cause financial exclusion. For an individual, the marginal propensity to save will reflect how much they want to put extra income into different forms of saving. In other words, it shows how much an individual is willing to save when additional income is received. At low-income levels, consumers will be buying all the necessities of life. An increase in income will probably all be spent. The MPS for low income earners will be either zero, negligible, or negative. This may create a scenario where these individuals may be financially excluded because the mainstream financial services may perceive them as high risk to give them loans, or they cannot afford the products of the financial services. With all necessities bought, saving can become an extra affordable option at higher income levels. Another factor that can lead to financial exclusion includes people with poor mobility being denied access to banking services when branches are closed down.

Many of these circumstances have been the case in Sub-Saharan Africa, where a significant number of people do not have a basic bank account and are financially excluded from mainstream financial services. Dymski (2005) looks at the problem of financial exclusion from a global perspective, focusing on more than one country. His study includes the changes that have taken place in the financial markets around the world. The regions for this study are Africa, the USA, Japan, Asia, Europe, and Latin America. Looking at it from a different context, he examines the inconsistency of the rise of financial exclusion amidst the global 'liberation' of the banking strategy. He argues that the "current scenario of liberalised banking and financial exclusion has emerged because of two successive phases of financial globalisation: a macro-scale globalisation beginning in the late 1970s and persisting two decades; and a micro-scale globalisation, beginning in the late 1980s and still gathering force" (Dymski 2005:108). According to the author, banking practices historically varied from region to region. Whereas the USA generally had a scheme in which banks were local and clustered with near universal participation, countries belonging to Latin America used to have universal banking located in urban areas. They provided informal financial plans in rural areas. The

European system offered various functionally distinct institutions designed to cater to different needs; some were set up purposely to meet the nationwide demands, while the rest were to satisfy local needs. The Asian countries habitually had universal participation where the government is central to directing credit at low but stable rates of return. It is worth noting that these different models, which were distinctive to their backgrounds, are now giving way to a more homogeneous system to provide the needs of a relatively more expensive or affluent market sector. Generally, this trend may give rise to a postulation that there is a generation of both financial inclusion for the privileged and financial exclusion for the poor or working poor. For instance, in an attempt to appeal to the desirable, affluent customers by offering them low or zero fees for services, the financial institutions leave the underprivileged customers with costly and limited services. Again, the banks' cross-subsidy strategies to charge elite customers a higher fee than the poor clients for similar financial services are being phased out. This results from banks now competing globally for elite customers and no longer offering subsidies to lower-balance or riskier customers. These developments lead to a greater number of poor households becoming unbanked ("those who are unable to establish or maintain bank accounts" Dymski, 2005, p. 125). Obviously, it creates a sharp division between the financially included and the financially excluded. Ultimately, Dymski (ibid) concludes by discovering that financial organisations can sacrifice the prospect of creating equality of opportunity of wealth for efficiency and profit. Therefore, it has become necessary that this specific difficulty of the working class and the poor in the current globalised financial markets needs further and critical considerations. However, it should be noted that no simple solutions are currently offered.

Delving into another aspect of financial exclusion in Africa, Osei-Assibey (2009) studied the factors that drive the supply and demand of basic financial services in Ghana and West Africa. The author criticised a previous study by the World Bank (2008) and contradicted the numbers the World Bank gave (ibid) in their report. Given an emphasis on rural banking, he reveals that the percentage of banks operating in rural areas in Ghana decreased from 10.4 per cent in 1992 to 9.8 per cent in 1998 and to only approximately 5 per cent in 2006. Using the rural community-based and household survey data sets gathered by Ghana Statistical Service in 2005 and 2006, his countrywide study covers a nationally representative sample of 8,687 households. Data collected in the survey include basic physical and financial assets, education, health, demographics, transfers, etc.

The study reveals that the decision by financial institutions such as banks to site a branch in a local community is heavily dependent on the level of infrastructure comprising energy and communication facilities, market attractiveness and market size. Meanwhile, factors such as conflicts, crimes and natural disasters negatively influenced their decision. Moreover, the results disclose that both market and non-market determinants drive the level of household demand for bank services. The factors include wealth status, dependency ratio, price, proximity to a bank, illiteracy, employment, and ethno-religion reasons. Therefore, "financial exclusion is both a problem of sub-optimal constraints in demand and supply" (Koku 2015 p: 12). On the account of the results, the study urges the branchless banks to take advantage of the 'low cost' initial setup system to open more branches in areas where they are needed most. It further recommends that the monetary authorities in Ghana should impress upon the financial institutions to create a strong connection with the communities and extensively put into practice financial education programmes. With similar evidence emanating from other developing countries, they will find the study's recommendations useful regardless of its limited geographical coverage (Ghana). Arguably, it is laudable that a recommendation be made to the Ghana authorities to influence the financial institutions' outreach into remote areas. However, the question remains of these institutions' willingness to do so because such directives are only for persuasion purposes and are not legally enforceable.

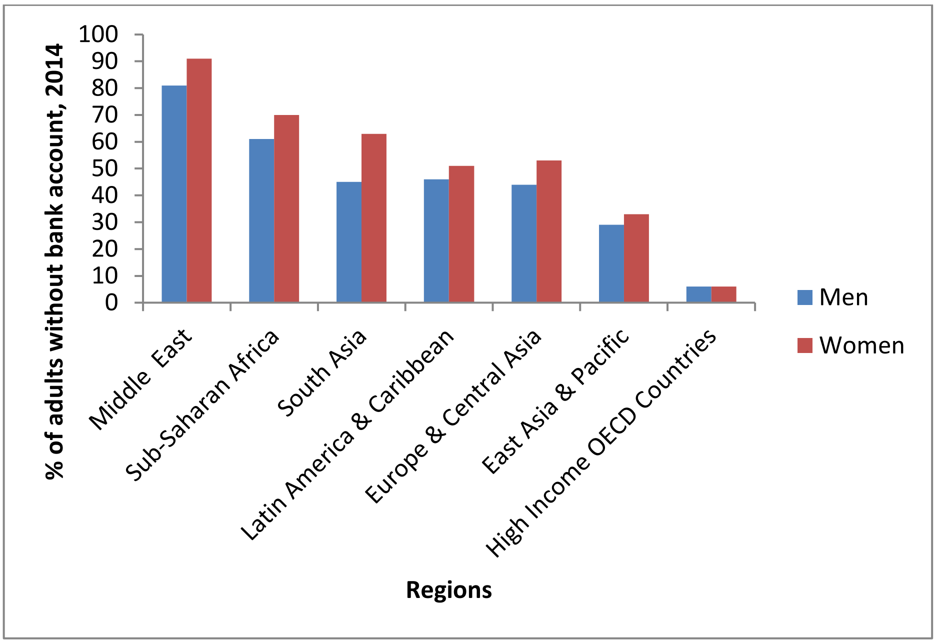
The principal method of escape from financial exclusion is access to a transaction account because it empowers individuals to store money and send and receive payments. In addition, a transaction account can serve as a means of achieving other financial services. Therefore, ensuring that individuals worldwide can access a transaction account has been the focal point of the World Bank Group's Universal Financial Access 2020 initiative. According to the World Bank (2017), financial access assists the progress of everyday living. It provides families and businesses the means to plan for everything from long-term goals to unanticipated emergencies. As account holders, individuals may be able to use other financial services, such as insurance and credit, to start and expand businesses, manage risk, invest in health or education and get through financial shocks, which can improve the overall quality of their lives.

Although progress has been made toward reducing the level of global financial exclusion, significant challenges remain. These are:

1. An estimated two billion adults worldwide do not have access to a basic account.
2. Globally, 59.0 per cent of adults without an account mention a lack of enough money as a key reason, which implies that financial services are not yet affordable or designed to suit low-income users. Other barriers to account opening include the distance from a financial service provider, lack of necessary documentation papers, lack of trust in financial service providers, and religion.
3. More than 200 million formal and informal micro, small and medium-sized enterprises (MSMEs) in emerging and developing economies lack adequate financing to thrive and grow.
4. MSMEs state a lack of collateral, credit history, and business informality as the main reasons for not having an account. (World Bank 2017)

Figure 1.1 summarises the global financial exclusion according to regions as of 2014.

Figure 1.1: Financial Exclusion by Regions



Source: World Bank, 2014

1.4 Microcredit as an Alternative to Mainstream Finance.

This section explores the critical and problematic issue of financial exclusion and access to finance. The identified challenges have garnered much attention recently, especially in emerging and developing nations. In Ghana, some low-income and poor groups do not have access to even the most basic financial products and services. The lack of access to financial services has created significant hurdles for the abovementioned groups. In the financial industry, a segment of individuals and businesses present a high-risk profile due to their lack of collateral, unstable employment, or insufficient credit history. These factors can result in low income or a higher probability of loan risks. Commercial financial institutions take into account these risk factors and approach this segment with sensitivity and care. While access to finance and account ownership has increased in some economies, progress has been slower elsewhere, typically due to huge discrepancies between the poor and the rich and men and females. The gap between men and females in developing economies remains unchanged since 2011, at 9 percentage points (World Bank Group, 2018). Financial exclusion limits the capability of particularly low-income earners to save for family needs, borrow to support a business or build a cushion against an emergency. Again, like most countries in the sub-Saharan region, Ghana has a high percentage of financially excluded adults. In spite of the attempts made to reduce the number and lessen the effects of the use of microcredit and mobile banking, the challenges appear insurmountable. The gains have been uneven across the country. Access to finance and an account at a bank or MFI provider can be crucial steps in escaping poverty. While the proportion of adults with a traditional financial institution account remained stagnant, the proportion with microfinance accounts has increased. Therefore, more support (in the form of microcredit) has to be extended to low-income and poor households.

1.4.1 The Debates in Microfinance Literature

The difficulties low-income people have accessing mainstream financial services is a topic that is becoming more relevant and difficult to address, as was covered in the preceding chapter. Particularly in rising and developing economies like Ghana, the problems of financial exclusion and access to money are receiving more and more attention. For many people, financial services offer a vital opportunity in many different ways. Unfortunately, some people are unable to access even the most fundamental financial products and services, which results in high costs. Those who cannot access these services confront significant issues due to the proliferation and penetration of financial services in a contemporary economy. Groups or individuals who lack assets to offer as collateral, a stable employment history, or a verifiable credit record in Ghana are inadvertently denied access to financial services for various reasons, such as a lack of sufficient income.

This section examines the relevant literature related to the research problem designed in the introductory chapter. The literature review is subdivided into two sections: the first part reviews the empirical evidence of microfinance's impact on poverty at the household level. These discussions focus particularly on the impacts on some proxies: poverty and well-being, female empowerment, housing, health, vulnerability, and education. Critical examination of empirical evidence concerning the impact of microcredit on household-level poverty, using a variety of proxies, aims to cultivate a comprehensive understanding of how these programmes affect various dimensions of poverty. The indicators mentioned provide measurable ways to assess borrowers' economic well-being and stability. Through the analysis of these indicators, the study can determine whether microcredit initiatives help improve participants' living standards. This evidence-based approach helps identify the most effective ways to enhance the socio-economic outcomes of microfinance programmes, confirms the effectiveness of microfinance as a strategy for alleviating poverty and also contributes to informed policy decisions. The second section reviews previous literature on the impacts on programme participants with respect to household income, household consumption, and asset levels. The primary objective of evaluating the impacts of microfinance programs on household consumption, asset accumulation, and income is to assess their effectiveness and broader socioeconomic benefits. By reviewing previous research, the study is contributing to determining whether microcredit services effectively contribute to higher household income, improved consumption habits, and the encouragement of asset accumulation. This review serves to provide valuable insights for policymakers regarding potential benefits and limitations, aids in identifying optimal program designs, and highlights areas necessitating further research. Your role in this process is crucial in achieving the overarching goals of using microfinance as a tool for poverty alleviation, promoting financial inclusion and economic empowerment, and enhancing participants' overall well-being. The above indicators will be key to the study for analytical discussion purposes.

The latter part of the chapter considers the impact that interest rates and inflation (closely connected elements) have on borrowers' savings. Over the years, interest and inflation rates have been high in a country like Ghana, and when borrowers' savings are earning none or little interest, there is no benefit because accrued rather the value in real terms goes down too. The chapter concludes by pointing out possible gaps in the literature on microfinance and its effects on poverty reduction, with particular reference to the aforementioned indicators. This explains the rationale behind the study.

As the debate on microfinance has grown over the past three decades, so has the compilation of related literature. In most quantitative impact studies, while other indicators are used as proxies for poverty reduction, a change in household income or expenditure indicates a reduction or increase in poverty level. Below is evidence of the existing empirical studies in the field to justify the selection of variables used in the study. These studies are summarised in Table 1.

Pitt and Khandker (1998) examine the impacts of participation by gender in three group-based credit programmes in Bangladesh (Grameen Bank, Bangladesh Rural Advancement Committee (BRAC), and Rural Development RD-12 Programme of the Bangladesh Rural Development Board (BRDB) using a variety of household and business survey data. These are Bangladesh's major small-scale credit programmes providing credit and other services to low-income earners. The research question was whether the programme participation significantly impacts household behaviour and if the gender of the programme participant matters, given that many of these programmes target females. The study discovered that microcredit has a considerable positive impact on the well-being of the participants' households. There was an increase in annual household consumption expenditure after twenty two months, and the impact is more significant when females are involved in borrowing. For instance, the study reveals that there is an increase in the annual household consumption expenditure by 18 takas for every additional 100 takas lent to a female, interestingly, 11 takas is achieved if a male borrows the same amount. The study also suggests that households headed by females had a higher propensity to participate in credit intervention programmes relative to households headed by men.

The authors estimate that the incidence of reduction achieved in moderate poverty and ultra-poor is 15 per cent and 25 per cent, respectively. This is the case of household clients who have been with BRAC for nearly three years. However, this level of poverty reduction seems to decrease when the length of membership decreases. A case in point of this development shows in the report that the entire rates of reduction for moderate poverty and ultra-poverty are 9 per cent and 18 per cent, respectively, when household members have been clients for more than five years. This rate of poverty reduction appears to be lower than clients who have been in the scheme for nearly three years, although the latter borrowed relatively a lesser amount of loan (3348 takas) compared to the former (6567 takas). In the same way, clients of BRAC appear to suffer from a reduction of the microcredit effect on poverty reduction as loan size increases. However, the situation is different with borrowers from BRBD and Grameen Bank, where the reduction rate in the occurrence of poverty rises with increasing loan size.

Reviewing Pitt and Khandker's analysis, Morduch (1998) found weaknesses in their selectivity correction when nearly 30 per cent of the households were ineligible for selection because they were above the criteria. To correct this, Morduch uses an alternative technique but the same data to conclude that there is no evidence of increases in consumption. Rather, he finds that microcredit is beneficial in reducing household vulnerability to poverty (risk reduction). Thus, it helps families smooth their expenditures, reducing the pinch of hunger and needs in lean times.

Also, Roodman and Morduch (2009) re-examine the same data and postulate that Pitt and Khandker's study mainly reinforced three general concepts about microcredit. This microfinance effectively reduces poverty, especially when females borrow and the low-income and extremely poor benefit the most. The authors' (Roodman and Morduch) study did not contradict those disseminated ideas. They assert, however, that omitted variables may have obtained the findings.

In addition, the key contributory evidence in favour of the findings is missing from both their studies and the literature as a whole. They suggested that the key difficulties for studying the effects of microfinance have been a lack of clean quasi-experiments[9] and an absence until recently of randomised trials.

Consequently, Khandker (2005) further investigates to improve on the previous study in Bangladesh and reports updated findings. He finds that whereas men made no returns at all for an additional credit of 100 takas borrowed, females are able to increase by 20 takas the annual household expenditure. He also reports that much of the reduction achieved is because of the microcredit introduction and estimated that the extremely poor participants benefited more than those who were moderately poor.

Pitt and Khandker's study may be one of the most notable and cited studies in the field of microfinance, but the results obtained, according to Zaman (2000), remain controversial. He reports that the same data have been used to show different results depending on the method employed for the impact assessment. Although some contextual information is provided in the study, evidence of the programme's implementation process is lacking. For example, did the study achieve the recorded results because the programme components were made more appealing to females than males? Therefore, It is a challenge to establish from the estimates in the analysis why females achieved a greater impact than males (Armendariz de Aghion and Morduch 2005).

In a related study to Pitt and Khandker (1998), Pitt et al. (2003) use the quasi-experimental approach observation method to examine the effect of additional resources supplied to and controlled by females, compared to males, on child health outcomes by gender of the child. These additional resources are group-based credit programmes[10] for the low-income and poor in rural

[9] Quasi-experiments are studies that aim to evaluate interventions but that do not use randomization. (Harris et al. 2006, White & Sabarwal 2002)

[10] Sampled households were participants of credit programmes from Grameen Bank, BRAC and BRDB.

Bangladesh. They report a significant impact on two out of three measures of children's health status when females have access to credit. Although they did not find evidence of a significant impact on the Body Mass Index, they reported impacts on arm circumference and height for the corresponding age for both boys and girls. In conclusion, it can be established that microcredit programmes have positive impacts on household well-being, mostly when a female participant accesses the credit.

In their case study, Hulme and Mosley (1996) surveyed two kinds of households participating in 12 microfinance programmes that operated in seven developing countries[11] to estimate poverty impacts. The households that were actively accessing credit from the intervention programmes and households that were waiting to receive their first loan after being accepted by the lender. These were used as treatment and control groups, respectively. The study reports that well-planned intervention programmes can improve the incomes of the poor and can move them out of poverty. They write, "there is clear evidence that the impact of a loan on a borrower's income is related to the level of income" (Hulme and Mosley, 1996:109). The credit schemes were very likely to achieve positive and significant poverty impacts among households closer to and above the poverty line, with the poorest being more likely to report insignificant effects from borrowing. This was partly because most low-income and poor people struggle to understand and manage their small business activities because they lack the necessary basic education and knowledge. Again, they are typically unwilling to take the risk for fear of losing the little they have (Chowdhury 2009).

Similarly, Mosley (2001) uses a range of poverty indicators, including income, assets holdings and diversity, as well as various measures of vulnerability, to assess the impact of microfinance on poverty in Bolivia. He reports positive impacts on income and asset levels, although negatively correlating with low-risk investments, particularly among the low-income and poor. Besides,

[11] The 7 developing countries include India, Malawi, Kenya, Bangladesh, Bolivia, Indonesia, and Sri Lanka

poorer households are more likely to jeopardise their long-term income prospects because they are highly restricted in their coping strategies. These results seem to confirm the findings of Hulme and Mosley (1996) that the poorest households do not benefit from microfinance; instead, non-poor borrowers whose incomes are above the poverty lines benefit from microfinance and enjoy substantial positive impacts. More disturbing is the finding that most of those with starting incomes below the poverty line actually ended up with less incremental income after getting micro-loans compared to the control group who did not receive such loans (Chowdhury 2009). Therefore, this may suggest that credit is only one among sundry other crucial complementary factors in generating income or output. Indeed, Banerjee et al. (2009) argue that the recipient's entrepreneurial skills are the most important factor.

Gobezie and Garber (2007) investigate whether or not the vision of ACSI[12] of bringing about a positive impact on the lives of the low-income and poor has been achieved by employing an individual and group interview method. The study samples a total of about 690 mature microfinance and incoming clients[13] from 15 branches of ACSI as the treatment group and control group, respectively, in the Amhara region of northern Ethiopia. The study reports an improved household diet due to increased household income. Food quality was measured by food condition and both quality and quantity. For example, the study finds that a relatively higher proportion (83%) of mature clients 'do not' have any problem with food security in the household during the last 12 months, compared to only about 73% of new clients. It is also stated that some household problems, e.g. consumption, were solved through accessing microcredit. Although the study reported positive impacts on the variables used in the survey, it was not evident if the question of randomisation in

[12] Amhara Credit and Saving Institution, Ethiopia, aspires to see a society in which people are free from the grip of abject poverty, with all the power determining their future in their own hands

[13] Matured clients (>60 months of participation) and new clients (< 12 months of participation) in the ACSI microfinance scheme

terms of participation during the programme was addressed. This could create a bias in selecting the sample population, therefore skewing the appraisal of the programme's impact. Also, the question of quality and quantity of food is highly subjective since the people in some programme areas were, in fact, recipients of 'food aid,' which could mean that responses might not reflect realities because any other response given might interrupt the flow of the assistance that was being received.

There has been controversy about the extent to which microcredit has contributed to female empowerment. One side of the literature believes that microcredit has positively impacted female empowerment and has backed up this assertion with a range of empirical results. Others have taken a sceptical stand, believing "that credit programmes do little to alter gender relations in favour of females" (Zaman 2000:5). However, it is argued that microfinance services tailored towards low-income and poor people have been renowned for their ability to reach out to females and enhance their welfare. The subject of females and microfinance was present from the start in experimental schemes in Asia and Latin America in the 1970s microfinance. Indeed, even today, the gender argument continues to be right at the forefront of the microfinance debate (D'Espallier et al., 2009). Many credit intervention programmes are aimed at females under the assumption that they are more reliable borrowers than males. It is debated whether this could help achieve the objective of financial self-sufficiency (Morduch 1999; Hulme and Mosley 1996). The Norwegian Nobel Committee (2006) emphasised microcredit's role in female liberation when Mohammad Yunus and the Grameen Bank were awarded the Nobel Prize. Advocates like Amin et al. (1998) suggest that credit programme participation has become an effective mechanism to empower females and change gender relations in traditional societies, therefore enhancing female social interaction and networking. Morduch (1999) argues that one of the strategic reasons for the success of microfinance in the public eye is because of its targeting of females. Indeed, over 3,300 MFI institutions reached 133 million clients with a micro-loan in 2006. Ninety three million of the clients were among the poorest when they took out their first loan, and eighty-five per cent of these poorest clients were females.

Notwithstanding the evidence proffered, some impacts of microcredit on female empowerment have been inconclusive: a mixture of varied results. According to Van Rooyen (2012), this is largely due to the difficulties in isolating the impacts of microcredit within complex interventions. Employing a cluster randomised trial, three-year study results from a combined microfinance and training intervention on HIV risk behaviour among young female participants in rural South Africa report substantial improvement in female empowerment. This includes the ability to negotiate safe sexual practices and avoid intimate partner violence (Pronyk et al. 2008). This method of examining the impact of microfinance programmes can attract many criticisms. In the absence of additional data, it will be difficult to ascertain whether the improvement in empowerment was due to the microfinance intervention or the HIV training received. The results are just as likely to be due to other features of the training or the intervention and cannot be credited to the issue of microcredit alone.

Moreover, in their study in Ethiopia, Gobezie and Garber (2007) reported significant effects of targeting females on confidence and decision-making roles. For instance, it is found that female participants have not only improved their lives by engaging in income generation activities but also decided to invest in the future by ensuring that their children are educated and become employable. Moreover, they gained confidence in deciding to purchase assets without feeling the need to seek permission to do so. They also participated in decisions about children's education and marriage and house and household assets. Similarly, Schuler and Hashemi (1994) find significant impacts of credit on the use of contraceptive methods as a proxy for female empowerment, although Khandker (1998) reports a decline in this practice. In addition, Lakwo (2006) notes significantly greater empowerment among females participating in a programme in his study on the impact of a rural microcredit programme in Uganda. The findings include evidence of female borrowers gaining better financial management skills, taking out bank accounts, acquiring greater mobility outside their homes, and feeling proud of themselves for contributing to household income. They founded micro-enterprises and acquired possessions of household assets, which were once believed to be owned only by men.

The focus of attention of those sceptical about the empowering effect of microcredit has been on the concern of females' control over loans. In actuality, men are the ones in control of investment decisions, and this situation could potentially cause adverse effects, such as intra-household violence (Goetz and Gupta 1996; Rahman 1999; Kabeer 2001; Mayoux 2001; Montgomery 1996). Some studies suggest that credit programmes exploit females' disadvantaged position in traditional socio-cultural environments to reduce the enforcement problem in the lending process. For instance, the patriarchal system practised in Bangladesh restricts female movements to their immediate environments (Osmani 1998; Rahman 1999). In the environments described above, it would be right to assume that men are in control of loans borrowed, although females contracted these.

According to Kabeer (2001), differences in the analytical frameworks employed in examining intra-household power relations have been the key source of disagreement among gender studies. Different studies have been explored using diverse methods in their analysis. Lundberg and Pollak (1993) thus suggest that the study analysis should include an important factor, such as the socio-cultural environment, except in situations where the cooperative equilibrium can be disturbed. For instance, where there can be an incidence of violence or divorce. This area of investigation into gender relations and female empowerment is outside the main focus of this study and, therefore, will not be pursued. Other empirical studies also report insignificant impacts on empowerment from microfinance. For example, Banerjee et al. (2015) report (in the context of India’s urban areas) a statistically insignificant effect of microcredit on female empowerment. Using a household survey, the study shows that "females living in treatment areas were no more likely than at other times to make decisions about household spending, investment, savings, or education" (Banerjee et al. 2015:14). Indeed, the results remain the same even when they focus on non-food decisions, which may be more sensitive to changes in empowerment.

Studies reviewed suggest the positive impacts of microcredit on housing. In his study, Hossain (1988), who carried out an in-depth field and household survey in selected Grameen projects and control villages in Bangladesh, found that members spend six times more on housing investments than non-members do. There is a universal awareness of the need to replicate the Grameen Bank approach in countries such as Ghana. However, the question is, will it work? Some components of this approach, like the formation of small groups, may make it feasible in different environments, but it may not be appropriate due to its expensive transactional cost. The approach is more likely to succeed in a highly populated area like Bangladesh, but it may be unsuitable for a less densely poverty-stricken area like rural Ghana.

Brannen (2010) used a questionnaire to investigate the Village Savings and Loan Association (VSLA) participants in Zanzibar, Tanzania. The results show that participants appear possibly to possess their own homes or are more likely to make investments in the quality of these homes than the control groups. Data from Barnes et al. (2001) in Uganda indicate that a higher proportion of client households are significantly more likely than non-client households to purchase or own the place where they live. Clients who choose to move away are more likely than non-clients to have moved to a better place. Again, client households are more likely to increase the number of rental units owned than non-client households.

Most of the evidence reviewed suggests that microcredit positively affects the health of low-income and poor people who participate in microfinance services. Households of female microfinance clients specifically give the impression that they have better nutrition and health statuses than non-client households (Hossain 1988; Pronyk et al. 2007; Doocy et al. 2005; Littlefield et al. 2003). The impacts relate to “the number of days when they are unable to work due to sickness, the number of episodes of sickness (for example due to malaria), and their levels of nutrition assessed, using standard measures such as the middle upper arm circumference (an indicator of short-term nutrition) and height (an indicator of longer-term nutrition)” (Van Rooyen 2012:2255). Accordingly, there is an indication that creating microcredit increases investment in health care in the context of expenditure on health care (Adjei et al., 2009; Dupas & Robinson, 2008) and health insurance (Lacalle et al., 2008). While researching the impacts of microfinance in an IMAGE[14] trial in South Africa, Pronyk et al. (2008) found a significant improvement in the intervention in terms of female’s capability to negotiate safe sexual practices and avoid intimate partner violence. However, this analysis is subject to limitations. There may have been important unmeasured differences affecting both the response to the intervention and the generalisability of the findings because of the inherent dissimilarity between the two female groups (see Pronyk et al., 2008). The incidence of a high level of non-response rate recorded among the comparison group can potentially bias the results and cause the findings to be challenged.

Further data suggest that microcredit may also improve the health of the children of clients in terms of protective behaviours, for example, sleeping under a mosquito net to keep out mosquitoes (Brannen 2010), and also increasing expenses for medical treatment (Gobezie and Garber 2007). Pitt et al. (2003) find statistically significant effects on two out of three comparative health measures of boy and girl children when females get access to credit. They report that a 10 per cent increase in the credit given to female clients increases the arm circumference of their daughters by 6.3 per cent. This is twice the increase expected from a proportionately comparable increase in

[14] IMAGE stands for The Intervention with Microfinance for AIDS and Gender Equity which combines microfinance, gender/HIV training and community mobilization (CM) in South Africa (Health Education Research, 2010, 25(1))

credit provided to male clients. Female credit also has a significant and positive, though rather smaller, effect on the arm circumference of sons. Female credit is likely to have large, positive and statistically significant effects on the height-for-age index of both boys and girls. However, there is no statistically significant effect on boys' or girls' body mass index (BMI).

However, a study of the impact of introducing microcredit on health and other related measures in India by Banerjee et al. (2009) does not find the existence of significant effects on children's health. Thus, females in a treatment area are no longer likely to make health decisions even though there is an increase in borrowing. Although the study provides some background information on the study area, the survey period[15] makes it somewhat difficult to examine any long-term impact of the programme. For example, whether there might possibly have been a huge impact or development on health when, over the long-term, the impact on investment may have been greater for more households. The selection of households in the study might be seen as biased since a condition for females aged 18-55 years was that they needed to be part of the household before it was selected. Questions that beg to be answered - 'Were the intervention and selected variables designated to favour females?' In the same way – 'Did the study consider the traditional patriarchal cultural background of the study area?' 'What were the roles of the other parts of the programmes in achieving the observed findings?' To summarise, the study failed to address the context in which the interventions occurred to properly interpret and explain the findings.

Concerning other proxy variables, there is not a large pool of literature available on the impact of microfinance on vulnerability. Nonetheless, Zaman (2000) focuses on BRAC, one of the largest microcredit providers in Bangladesh. Household questionnaires were used to explore the relationship between microcredit and poverty and vulnerability reduction. He argues that microcredit mitigates a number of factors that contribute to vulnerability. Credit programmes are

[15] Period of 15- 18 months reported

more likely to achieve a positive impact on vulnerability than poverty reduction. The study's finding remains inadequate even though it benefited from a cross-sectional data survey[16]. The study by Al-Mamun and Mazumder (2015) supports the positive impact of microcredit on vulnerability. They employ a similar methodology as Zaman (2000) to examine the effect of Amanah Ikhtiar Malaysia’s (AIM)[17] microcredit programme on low-income households’ income, poverty rate, and vulnerability in Peninsular Malaysia. The findings indicate that participation in AIM’s microcredit programme leads to a growth in household income and reduces the level of both poverty rate and economic vulnerability. They highlight that the source of income and the number of gainfully employed members significantly reduce the low-income households’ level of economic vulnerability. In addition, they note that older urban participants have a significantly lower level of economic vulnerability than newer urban participants.

The evidence available from studies appears to have contradictory impacts on education, indicating both positive and negative impacts. Data from some studies show a positive correlation between participation in a credit programme and increases in a household’s expenditure on children’s education (Dunn and Arbuckle 2001; Lacalle et al. 2008 and Adjei et al. 2009). Some studies report positive impacts of microfinance programme participation on education and further claim that the children of microfinance clients are more likely to be in education and stay in school longer (Littlefield et al., 2003; Karlan and Zinman, 2009 and Boateng et al., 2015). One of the significant[18]

[16] Also known as point-in-time surveys, **cross-sectional** data survey collects information from the respondents at a single period in time. Thus, they study a single population or sample size during a single specified time-frame, and give us a “snapshot” of opinion data. Cross-sectional surveys usually utilise questionnaires to ask about a particular topic at one point in time. (Sincero 2012)

[17] Amanah Ikhtiar Malaysia (AIM) is Malaysia's largest microcredit organization. Since its inception in 1987, it has disbursed more than RM2.3 billion in loans to 262,000 borrowers. AIM claims to have the world's highest repayment rate, at 99.2%, as of 2010. (http://www.aim.gov.my/)

[18] Study backed by the Food and Agriculture Organisation of the United Nations (FAO), the Ford Foundation, and the International Fund for Agricultural Development (IFAD) to find if the vision of microfinance services by ACSI of bringing about positive impact on the lives of the poor in the one-time poverty-stricken Ethiopia is being attained.

studies in Ethiopia conducted by Gobezie and Barber (2007) reports that microfinance matured clients tend to have more of their school-age children (boys and girls) in school than new clients. Thus, 77% of mature clients managed to send their school-age children to school, compared to only 68% of incoming clients. Given the circumstances in rural areas, this can be interpreted as more mature clients managing to forgo the opportunity of having their children's labour at home for income-generating purposes and incurring school expenses. Pitt and Khandker (1998) also report that participation in microfinance programmes in Bangladesh increases the probability of enrolment for girls.

Other studies, however, report no discernible effect on education (Brannen 2010 and Banerjee et al. 2015), but Barnes et al. (2001) find a negative effect on education. Furthermore, Nanor (2008) finds mixed impacts of both positive and negative impacts on education expenditure depending on the environment - region. This suggests that other peculiar regional factors influence the contributory relationship between microfinance and education and that the observed results cannot be attributed to the introduction of microcredit alone. Conceivably, the most worrying is the study of Barnes et al. (2001), which depicts microfinance's negative effect on children's education. Their study in Uganda found that client households are significantly more likely than non-client households to struggle to pay school expenses. These expenses are for one or more household members for at least one term during the previous two years; hence, children had to drop out of school. This suggests that participation in microfinance programmes reduces education among microcredit clients. The above raises the question of whether or not participation in microfinance programmes brings extra pressure on clients and perhaps compels them to use the loan for other purposes. Similarly, could the money meant for education expenses be used to repay due loans? These and other related questions need to be further interrogated to find answers.

Therefore, to fully understand the potential benefits of microfinance, the next subsection will explore and delve into its significant impact on household income, household consumption, and asset level. By analysing these key factors, we can gain important insights into the economic outcomes of microfinance programmes.

1.4.2 Microfinance and Economic Outcomes

In addition to the above reviews, this study section discusses the impact of microfinance programmes on household income, household consumption, and asset levels.

Barnes (1996) states that an almost unlimited collection of variables could be identified to assess impacts on different units. These variables must be measurable and defined with exactitude to be of any use. Previous studies have used economic indicators like changes in income as a measure of impact. Other common variables considered are the levels and patterns of consumption, expenditure, and assets. Khan (2014) makes a strong case that assets are particularly good and valuable indicators of impact. This is so because, unlike the other economic indicators, assets are not only based on an annual estimate, but their levels do not significantly fluctuate.

In their book *Portfolios of the Poor*, Collins et al. (2009) carry out a year-long study to investigate the fundamental question of how the poor make ends meet. Adopting an ethnographic approach to cash-flow analysis that combines qualitative and quantitative methods, the authors investigated the financial lives of more than 250 poor households in three countries: India, Bangladesh and South Africa. The review of the financial diaries that families kept covered a 1-year period between 1999 and 2000. Over the year, bi-monthly interviews were conducted with the poor households to record all their financial transactions, however small and seemingly insignificant. The diaries helped to track the details of the households' financial management over time. The sampled households, drawn from both rural and urban areas, included three daily income levels: extreme poor (less than $1 per capita), upper poor ($1–$2 per capita), and non-poor (more than $2 per capita).

Among other findings, the study concludes that households would often find ways to fund large expenditures using portfolios. That is, households use a wide range of microfinance models to amass large lump sums in relation to their income flows. The authors also state that available credit helped to expand a business as well as helping to smooth consumption. In addition, more people living in poverty could gather enough money to pay for education and healthcare when it was needed. This would be a result of improving intermediation, which also provides a big boost for other development objectives. In some way, the results contest the assumption that clients' primary use of microcredit is for business investment purposes, and they suggest that a large part of the funds is used to manage household consumption and cash flow.

The key gap in the study is its research method because of the small-sample bias; the study may not represent the conditions of the poor in the three selected countries or, needless to say, the world as a whole. This weakens the authors' claim that this study represents the portfolios of the "world's poor." Its restrictive regional and country coverage makes the findings subjective and thus too narrow in scope for making generalisations or guiding policymaking. For instance, India and Bangladesh are from the same region and South Africa, with its developed economy and stable government, is not representative of the rest of Africa. A series of financial diaries from a country like Ghana, where the economy is relatively fragile, would provide useful insights into the financial lives of the world's low-income and poor. This begs the question of whether they will use similar mechanisms to manage even smaller and less reliable incomes. As mentioned earlier, there was a suggestion of difficulties in the sample selection, which did not accurately reflect the intended target population. That is, proper randomisation could not be achieved. The excluded might be those whose condition may need special attention. Could they have kept up with the repayment schedules because MFIs and Saving clubs normally rely on members who can repay borrowed loans? Also, the low-income and poor migrants from rural areas found it relatively difficult to be accepted as members of these clubs without a good history. This creates a gap in the sample used for the survey. Again, there is the likelihood that the interviewers may have unintentionally influenced the behaviour and answers of the respondents. The respondents could adjust their behaviours if they knew the interviewers were recording their comments.

The study of Augsburg et al. (2015) uses a randomised controlled trial (RCT) to investigate whether credit availability for the more disadvantaged can reduce poverty. They analysed the impacts of microcredit on a subset of loan applicants who were deemed too risky. These applicants were considered unreliable for acceptance into a credit programme by a well-established microfinance institution (MFI) in Bosnia and Herzegovina. In the 14 months, respondents were interviewed frequently to gather data for analysis. The study's findings suggest increased levels of business activity and self-employment. However, this did not translate into increased household income during the study period. Evidence that can lead one to conclude that borrowers seem to substitute out-of-wage labour. The results also show evidence of increases in inventory, a reduction in the incidence of wage work and an increase in the labour supply of 16–19-year-olds in the household’s business. Increases in business profits and reduced consumption and savings are also reported. The results suggest that whereas respondents without savings, mainly the less educated, reduced consumption, those with a prior business and some savings ran down their savings. These facts appear to postulate that households need to make lumpy investments, but the loans are too small in themselves to start or expand a business. Therefore, in the hope of future returns, households seemed to use their own resources to top up the loan to reach a sufficient amount of funds to make an investment. Again, the study came at a particularly difficult time when Bosnia and Herzegovina experienced a financial crisis in 2008–2009. Therefore, could the results from the study be affected by the challenging circumstances in the country? For instance, there were reports of an increase in non-payment and late repayment amid widespread concerns about a high number of borrowers’ defaults and over-indebtedness. This might be the reason why it is reported that this programme led to an implicit subsidy of $268 per marginal borrower on average.

Angelucci et al. (2015) study uses a clustered randomised trial[19] to estimate the impacts of microcredit at the community level from a group lending (joint liability) expansion by the largest micro-lender in Mexico. They collected the data using multiple-choice questions. After 27 months of study, findings available show evidence of growth in businesses (both revenues and expenses increase) in treatment areas. However, there are no corresponding effects on business profits. The study shows no evidence of statistically significant treatment effects on household income. This is similar to the study of Augsburg et al. (2015), when there is a lack of evidence to support significant effects on household income. Again, there is a reported decline in purchases of assets and temptation goods. This result is, therefore, believed to be consistent with lumpy investment in businesses, which may need extra funding beyond what is provided by small loans or with a reduction in asset trading. This gives the impression of a reduction in asset sales to service debt. The results also show no evidence of a statistically significant effect on labour supply but modest increases in female intra-household decision-making power. Although there are reported impacts, the authors pointed out the less transformative power of the economic degrees of even the recorded statistically significant effects. The uncertainty of the study's external validity[20] of the findings to other settings and lending models creates a gap that needs to be investigated. There is insufficient existing theory and evidence, which do not yet provide much guidance on whether and how a given lending model will produce different impacts in different settings, with varying demographics, etc.

[19] Cluster randomisation trials are experiments in which intact social units or clusters of individuals rather than independent individuals are randomly allocated to intervention groups (Donner 2004)

[20] The extent to which the results of the study can be generalised to other situations and to other people

This does beg the question of whether the joint liability model of lending used in Mexico will produce similar findings when the same model is applied in Ghana in dissimilar circumstances.

The study of Attanasio et al. (2015) employs both the joint liability and individual-liability microcredit lending models targeted at females. The study focuses on measuring and comparing the impact of both microcredit models on various poverty measures in rural Mongolia. Poverty measures like entrepreneurship, household food consumption, household income, and labour are studied using a randomised field experiment. The authors' evaluation is based on two rounds of data collection: a baseline survey before the start of the lending programmes and a follow-up survey 19 months later. The study findings on joint-liability lending appear to be mixed. It is reported that about half of all credit obtained is used for household consumption rather than business investment, even though the intended purpose of the loans is to finance business creation. In line with other RCT studies, the study discovers that only among female borrowers who were offered group credits does the study find an impact on business creation. These females are reported to be 10 per cent more likely to own an enterprise than those in control areas. This can even be as high as 30 percentage points if the females in the control areas are less educated. In terms of poverty impact, unlike some other randomised impact studies reviewed, access to group credits has a positive effect on food and total consumption, particularly of milk, bread, and non-alcoholic beverages. With reference to individual lending, the study shows no increase in both enterprise ownership and any of the poverty impacts. There is not much evidence of higher income in individual or group-lending areas relative to the controls. However, it appears that the stronger and significantly different impacts on consumption and business creation in group lending areas perhaps indicate that group loans are more effective at increasing the permanent income of households. These above findings raise the question of why group credit is more effective at raising consumption and possibly long-term income if there is any confidence in the evidence of the larger impact of such credit. This presupposes that the group lending technique promotes self-discipline, which ensures that a substantial part of the loans is invested in the first place instead of used for any other purpose. This study may have somehow contributed to the theoretical literature in the microfinance industry, yet its quality of being comprehensive can be questioned. The results achieved in the study may or may not be generalised to the broader area or population. This is in view of the fact that credit was offered to females who had expressed an interest in borrowing during the study's initial information sessions in each village. Therefore, the results apply to females who were keen to borrow even though they did not yet know which loan type (individual or joint liability) they would be offered. Again, the attrition rate[21] between the baseline and follow-up surveys is given as 16 per cent. While this is not extreme, concerns can be raised about possible imbalances.

Tarozzi et al. (2015) use data from a randomised controlled trial conducted between 2003 and 2006 in poor rural Ethiopia, Africa. The focus is to study the impacts of increasing access to microfinance on a number of socio-economic outcomes. Despite the primary emphasis on contraceptive use, household surveys conducted before and after the interventions also measured a broad range of socio-economic outcomes, which include income from agriculture, animal husbandry, non-farm self-employment, labour supply, schooling and indicators of female empowerment. The interview method was employed to collect the data over three years. The study reports that a large majority of loans received by borrowers were used to fund production activities. Although unlike in the most common narrative of microfinance, investment in non-farm small businesses received little attention; instead, the bulk of the funds is reported as being invested in crop cultivation and livestock-related activities. The study's findings show a lack of significant impacts on the socio-economic outcomes, although there were some increases in livestock sales and hours of work for teens' activities outside of the households. Regarding income-generating self-employment activities, the study finds that increased access to loans did not translate into more non-farm

[21] Attrition rate, in a broader sense, is a calculation of the number of individuals or items that vacate or move out of a larger, collective group over a specified time frame (Galetto 2017).

business creation. While the study finds some evidence of impacts on the scale of farm activities, the achieved estimates are inconclusive. Measures, which stayed the same across treatment and control areas, include the number of hours adults worked and the school attendance rate. Nevertheless, female empowerment indicators have a small but not statistically significant decline.

Allowing for the reported substantial increases in borrowing and the lack of significant changes in socio-economic outcomes, a question could be asked if a scenario was created where loans were not adapted to the needs of rural households. On the other hand, could there be a situation where the returns on investment were low in treatment areas? Despite its relative strength of having a longer study duration (the time interval between pre-intervention and post-intervention surveys), the study has some weaknesses.

Households from the same villages were surveyed before and after treatment, but it was not the same households that were surveyed. Therefore, the panel data collected by the study are those of the same villages but not necessarily of the same households. This may affect the reported outcomes of the findings. Another observed gap in the study is the lack of baseline data[22]. Having baseline data is beneficial because it allows the study to measure to what extent observed household characteristics are balanced across the different experimental groups at baseline. In addition, baseline data gathered at the beginning of a study helps to gauge to what extent the immediate impacts differ from those observed. Therefore, the lack of baseline data significantly limits the study's ability to measure heterogeneous treatment effects. This is potentially imperative because the existence of heterogeneous impacts is a common and pivotal occurrence among RCTs evaluating other microfinance programmes. Again, the lack of consumption data in the study does not allow the comparison of the findings with those of other evaluations with a similar variable. In

[22] Initial collection of data which serves as a basis for comparison with the subsequently acquired data.

addition, unlike many microfinance institutions, the two organisations used[23] in the study required some form of collateral from the borrowers. This makes the sample not representative, and the findings may be subjective because perhaps the poorest households with no collateral were not selected for the study. One can postulate the existence of self-selection bias in the sample borrowers. Generally, the study lacks convincing evidence of transformative power in its observed changes in the living standards of beneficiary communities. Based on the literature review, it can be concluded that microfinance programmes have some impact on poverty reduction. Thus, the subsequent section of this chapter will explain how this study builds on existing literature.

[23] The intervention aimed at increasing access to microcredit in programme areas through the entry of two MFIs, the Amhara Credit and Savings Institute (ACSI) in Amhara and the Oromiya Credit and Savings and Share Company (OCSSC) in Oromiya.

Table 1 A Summary of Selected Studies in Microfinance

Study Authors	Dependent Indicators	Methodology	Time frame	Setting/Demographic Coverage	Main findings
Adjei et al. (2009)	Income via business expansion, human capital and physical capital.	Questionnaires	February to July 2007	Rural and urban setting in Ghana	Expenditure increases for the acquisition of household durable assets have a positive and significant impact on healthcare, education, client welfare (insurance) schemes, and savings.
Al-Mamun and Mazumder (2015)	**Impact of microcredit on income, poverty, and economic vulnerability**	Unknown	Unknown	Rural and urban areas of Peninsular Malaysia	Microcredit programme leads to an increase in household income and reduces both the poverty rate and level of economic vulnerability.
Angelucci, M., Karlan, D. and Zinman, J. (2015)	Micro-entrepreneurship, income, labour supply, expenditures, social status, and subjective wellbeing.	Questionnaires	27 months from April 2010	Urban, peri-urban, and rural settlements in Mexico.	Evidence of growth in businesses (both revenues and expenses increase), but no corresponding effects on business profits, entry, or exit found. There is no evidence of statistically significant treatment effects on household income or labour supply. Treatment effects on most measures of spending are not statistically significant (albeit noisily estimated), but evidence of a decline in asset and temptation purchases. There is also evidence of modest increases in female intra-household decision-making power but no evidence of effects on intra-household conflict.
Attanasio et al. (2015)	Entrepreneurship, household food consumption, household income and Labour	Survey type unknown	19 Months from April 2010	Rural Mongolia	Mixed findings on the impact of joint-liability lending. The positive impact of access to group loans on female entrepreneurship and household food consumption but not on total working hours or income in the household. Regarding individual lending, the study shows neither an increase in enterprise ownership nor any poverty impacts.
Augsburg, B. De Haas, R. Harmgart, H. & Meghir, C. (2015)	Household structure, entrepreneurial activities and other sources of income, household consumption and savings, asset ownership, outstanding debt, exposure to shocks, and stress levels.	Survey by face-to-face interview.	14 months from November 2008 - July 2010	Bosnia and Herzegovina	Evidence of higher self-employment, increases in inventory, a reduction in the incidence of wage work and an increase in the labour supply of 16–19-year-olds in the household's business. There is some evidence of increases in profits and a reduction in consumption and savings. There is no evidence that the programme increased overall household income.

Study Authors	**Dependent Indicators**	**Methodology**	**Time frame**	**Setting/Demographic Coverage**	**Main findings**
Banerjee et al. (2015)	Household consumption, business income, education, health and female empowerment and borrowing.	Household survey	3- 3.5 years from 2005	Urban areas in India	Increase in borrowing. Significant effects on business outcomes and composition of household expenditure but varying for different households. No discernible effect on education, health, female empowerment
Barnes et al. (2001)	Non-formal education in health, nutrition, family planning, HIV/ Aids prevention and business management	Questionnaires and interviews	Between Nov. 1997 and 29 October 1999	Rural and urban setting in Uganda	Significant and positive effects on housing, positive impacts for individual savings, increase in individual savings, positive impacts on an accumulation of assets for households (but not significant, and a small number of clients had to sell assets to make loan repayments) and negative effects on education.
Boateng et al. (2015)	Education, housing, individual income level, household growth and participation in social and religious activities	Questionnaires	September 2013	Semi-urban areas in Ghana	Significant and positive effects on education levels, income levels, family growth and housing. Also, a significant reduction in poverty levels
Collins et al. (2009)	Household income and consumption and household's asset	Bimonthly interview	1 year	Rural and urban areas in India, Bangladesh and South Africa.	There was an increase in business activities, education and health care, but physical assets changed very little. Evidence of consumption smoothening.
Copestake et al. (2001)	Profitability, business diversification and household income	Combination of Case Study and Questionnaire	1998	Zambia semi-urban Areas	Significant increases in profits and household incomes. Nonetheless, qualitative evidence revealed that some clients performed poorly because of the rigidity of screening and enforcement devices used by group lending programmes.
Gobezie & Garber (2007)	Improving food security, health status, educating children, creating additional assets (improved housing), and empowerment	Individual and group interview	12-24 months.	Mostly rural areas in Ethiopia	Significant and positive impacts on food security, health status, educating children, creating additional assets as well as impacting empowerment

Study Authors	Dependent Indicators	Methodology	Time frame	Setting/Demographic Coverage	Main findings
Hossain, (1988)	Household income, housing, nutrition and health	Field and household surveys	May 1985	Mostly rural areas in Bangladesh	Increase in household income; increase in investment in housing quality; improvement in nutrition and health statuses.
Hulme and Mosley (1996)	Household income, employment, poverty reduction, vulnerability	Case Study	Early 1990s	Rural and urban areas in India, Malawi, Kenya, Bangladesh, Bolivia, Indonesia and Sri Lanka	Significant impacts on lowering monopolistic interest rates from moneylenders. Reported positive impacts on technology and employment but fluctuated according to income groups. Material and income poverty were reduced, but a report of credit effects on vulnerability was not significant.
Karlan and Zinman (2009)	Business growth and wellbeing	Household and business survey	11-22 months from 2006/07	Rural and urban areas in Manila	Profit increase, business shrink, reduced labour, increase in education, reduce formal insurance and increase in sharing mechanism.
Pitt and Khandker (1998)	Labour supply, children's schooling, household expenditure and asset accumulation	A multi-purpose household survey	Between 1991 and 1992	Rural areas in Bangladesh	Significant and greater impacts from female than male participants on household expenditure, boys' education and propensity to borrow. Reported higher impacts on labour supply from male borrowers. Positive impact on children's health.
Pitt et al. (2003)	Arm circumference and height-for-age of boys and girls	A multi-purpose quasi-experimental household survey	Based upon a 1991/92 survey	Rural areas in Bangladesh	Credit to females is found to have a large and statistically significant impact on two measures: arm circumference and height-for-age of boys and girls, although the insignificant impact on the Body Mass Index (BMI) of boys and girls.
Pronyk et al. (2008)	Economic wellbeing, female empowerment, and HIV risk (health)	Individual interview	2–3 year study period until 2008	Rural Areas in South Africa	Positive impacts on health (but not attributed to the microcredit element of the programme) and economic wellbeing, mixed impact on female empowerment.
Tarozzi et al. (2015)	Contraceptive use, income from agriculture, animal husbandry, non-farm self-employment, labour supply, schooling and indicators of female empowerment.	Interview method	3 years between 2003 and 2006	Poor and Rural areas in Ethiopia	There is a lack of significant changes in the socio-economic outcomes, although some increases in livestock sales and hours of work for teens' activities outside of the households were reported. There is no evidence of non-farm business creation, but some evidence of an increase in the scale of farm activities. The number of hours worked by adults remained the same, but a decrease in girls' hours of work in self-employed activities. There is a small

					but statistically insignificant decline in indicators of female empowerment and no effect on schooling attendance.
Zaman (2000)	Consumption expenditure, asset accumulation and the use of loans	Household questionnaire	April and August 1995	Rural areas in Bangladesh	Microcredit reduces vulnerability by smoothing consumption through the use of loans in emergency situations, increasing building assets, providing emergency assistance during natural disasters, and empowering females.

1.4.3 A Reflection of Debates on Research Objectives

This section of the chapter provides how this study will build upon the existing literature. The review of the relevant literature provides a wide range of evidence that microfinance programmes can somewhat impact poverty. The study has discussed different proxies of poverty, but for analytical purposes, it mainly focuses on the impact of microfinance on household income, household consumption, and asset levels. Whereas some of the literature reviewed above, summarised in Table 1, leads to positive effects on some poverty proxies, others remain inconclusive and often, the methods used are questioned. For example, Rodman and Morduch (1998), who suggested a lack of clean quasi-experiments, have challenged the method employed by Pitt and Khandker (1998) for tier study. The various empirical findings differ significantly because of the different methodologies employed in assessing the impact of microfinance.

However, the issue of context has also not been thoroughly examined in most studies on microfinance interventions. Meanwhile, each study is context-specific, "what works" needs to be qualified to "what works under which circumstances" (Deaton and Cartwright 2016:36), and "each impact study must be interpreted as a small piece of a growing body of knowledge about how microfinance works, in all its forms and functions in the world" (Odell 2010:12). Additionally, Copestake and Williams (2011) agrees that making an over-generalisation about the impact of microfinance is full of risk allowing the large differences in service types, and impact indicators. They added that the results in a different context would vary greatly even for the effect of similar services. The socio-economic characteristics of clients and the level of methodological consistency required by different audiences are other variations that may dictate the impact results. Therefore, in light of the gaps in the previous studies vis-à-vis the context, this study aims to use both quantitative and qualitative research methods to build upon the existing literature. This will be done by investigating the impact of microfinance on household variables discussed above in the context of rural Ghana.

Furthermore, most of the reviewed literature (see Pitt and Khandker (1998); Collins et al. (2009); Augsburg et al. (2015); Angelucci et al. (2015); Attanasio et al. (2015) and Tarozzi et al. (2015)) somewhat report similar findings on the impact of microcredit when some key variables were investigated. Although there may be differences in the indicators used by these studies, most of them seem to show evidence of growth in business activities when there has been increased access to microcredit. For instance, Angelucci et al. (2015) found increased business revenues and expenses. On household income, whereas Al-Mamun and Mazumder (2015), Gobezie and Garber (2007), and Hossain (1988) show significant and

positive impacts on other variables due to an increase in household income, Augsburg et al. (2015), Angelucci et al. (2015), Tarozzi et al. (2015) and Attanasio et al. (2015) report no evidence of statistically significant treatment effects on total household income. Collins et al. (2009) suggest an increase in education and health care. Here, an assumption can be made that an increase in income resulted in the rise of the two measures. The question is, will similar findings be obtained if the study is replicated in Ghana under different circumstances? This study intends to address this outcome by attempting to research this further.

In terms of household consumption, the available literature shows inconclusive study outcomes. Data from Pitt and Khandker (1998) studies and Attanasio et al. (2015) seem to deviate from the trend of reviewed studies. Unlike the others, the authors find a positive effect of access to group credit on total household consumption. Meanwhile, the results obtained from the studies of Angelucci et al. (2015) and Tarozzi et al. (2015) find no evidential effect, while Augsburg et al. (2015) report a negative correlation between microcredit and household consumption. On the other hand, Collins et al. (2009) find evidence of consumption smoothing when access to credit increases. This presupposes that households in treatment areas placed limits on spending on goods and services to create some financial reserves for better financial stability in the future. Will the study identify a similar outcome when there is an increase in income from microcredit?

Again, data from the literature provide ambiguous outcomes on the evidence for assets and resources. Whereas Augsburg et al. (2015), Gobezie and Garber (2007) and Zaman (2000) conclude that an increase in microcredit translates into growth in assets and resources, Angelucci et al. (2015) report otherwise. Instead, the latter find evidence of declining assets and temptation purchases. Nevertheless, the World Bank (2003) states that improving poverty requires better managing a diverse portfolio of assets: financial, human, intellectual, physical and natural. Therefore, acquired assets can be seen to play an important role as a buffer in times of economic crisis.

There are some instances when results have been inconclusive (see Pronyk et al. 2008 on impacts on health). In the study, the positive impact results achieved could not be attributed to the microcredit element of the programme. This suggests that the findings obtained may have resulted from other features of the intervention programme and not microcredit alone. Other studies also have achieved negative impacts. Kabeer (2001) suggests that differences in the analytical framework employed in the studies might have been the key source of disagreement among gender studies. Therefore, this study aims to address this gap by designing a broader analytical framework to encompass as many features as possible to help draw a better conclusion on microfinance impacts.

Again, it is worth noting that some of the research gaps that the study has identified in some sections of the literature are seemingly related to the lack of attempts to examine the effects of microfinance, looking at different lending models, except very few. (See Banerjee et al. 2015; Angelucci et al. 2015 and Attanasio et al. 2015). This remains primarily significant under the theoretical assumption that the informational costs, considerably reduced by screening, incentive and enforcement devices, are passed onto the borrower (Stiglitz 1990). Thus, any increase in the cost of borrowing for any of the models: solidarity groups, ROSCAs or village banking, can result in a reduced scale of impact on poverty. In other words, different lending technologies may have varied effects on the cost of borrowing and the level of poverty alleviation. However, this is outside the scope of this study and, therefore, will not be investigated much further.

There are a number of equally important unanswered questions in the existing literature that require further research. They include the relationship between microfinance institutions' services and poverty reduction. Do the perspectives of both MFIs and the borrowers converge or diverge on which factors support the use of microcredit? How effective are microfinance services in reaching the low-income and poor, especially rural people? How do micro-credit services help reduce the uncertainty of the low-income and poor daily lives, and does participation in microfinance programmes significantly improve borrowers' living standards? Can better-designed microloans contribute to improving the lives of the poorest clients? Nevertheless, empirical studies on the impact of microfinance in rural Ghana are not only inadequate in number but also employ old data to analyse the situation. Using more current and relevant data as well as an improved econometric framework to reduce selection bias, this study is expected to shed more light on whether and in which ways and under what factors microfinance helps the poor and low-income in Ghana. Again, the findings of this study are expected to provide the Government of Ghana and the policymakers with more detailed information on microfinance.

1.4.4 Theoretical Basis of Research Approach

Concerning the theoretical underpinnings of the study, the forthcoming section draws on existing research in terms of theories and concepts developed. It is important to consider both fundamental and institutional variables within a country to establish a theoretical framework for financial exclusion. These variables often represent wider economic and social exclusion issues, highlighting the significant role of financial exclusion in these broader issues. In countries experiencing substantial economic and social disparities, the causes of financial exclusion can be linked to various contributing factors, including those discussed above. For instance, many sub-Saharan African countries need more financial development. Growth rates have underperformed even in countries with financial development, with the possible explanations for slow growth including deregulation and banking crises (Papadavid et al., 2017; Tarozzi et al.,2015; Adjei et al., 2009). In such situations, low-income individuals and entrepreneurs are likely to be excluded from the financial system due to the absence of collateral and a regular income stream. They are classified as not creditworthy or high risk (Fafchamps, 2013; Nguyen and Qian, 2012).

Access to credit facilities is essential for economic growth. It enables individuals, families, and businesses to invest, increase income, and create wealth. Credit facilities help businesses expand, create job opportunities, and provide individuals and families with capital for essential needs. It is crucial for promoting economic prosperity and improving the wellbeing of communities. Studies show that microfinance, particularly the role of MFIs, plays a significant role in providing financial access to low-income borrowers who cannot access traditional banking services. MFIs, with their unique approach, offer credit and financial services to poor and lower income households and aim to help users qualify for traditional bank loans. Research indicates timely access to finance can help lift people out of poverty, and MFIs can contribute to this goal. Therefore, addressing credit accessibility is crucial for borrowers to unlock their potential and achieve their goals (Sendra-Pons et al., 2022; Dabla-Norris et al., 2015; UN, 2014; Walker, C., Druckman, A. and Jackson, T. 2021; Papadavid et al., 2017; What Works Growth, 2022; Barajas & Sahay, 2017; Ratna et al., 2015; Reddy et al., 2005; OECD, 2023; Khandker, 2005).

Increasing access to credit can impact households' investment and consumption behaviour in various ways. It can enable higher levels of investment without reducing current consumption, or it can allow for increased consumption in the present, with the trade-off of lower future consumption. Suppose the investment opportunity requires a large sum of money; in that case, the rise in investment may be accompanied by a decrease in current consumption, presumably to achieve higher future consumption. Similarly, access to credit allows households to make big purchases (such as buying a refrigerator) at the expense of current non-major purchases and future consumption. Moreover, sustained access to credit, typically provided by microcredit, can also affect savings. Additionally, it may impact precautionary savings, although the standard MFI loan with its fixed cycle may not be suitable for handling emergencies; yet, many microfinance institutions do offer emergency loan products (Banerjee, 2013).

Theoretically, the literature has previously established that a lack of access to credit inhibits the ability of low-income people in developing countries to move out of poverty (Hermes & Lensink, 2007). They need more collateral to access the loan. The exclusion of these poor and low-income households from formal banking necessitates microcredit and unique solutions to address their needs. In developing countries like Ghana, the credit markets consist of formal and informal sectors. However, due to exclusion from the formal market, the poor and low-income earners often have no choice but to turn to the informal market for loans. These loans come with very high interest rates, as moneylenders take advantage of the vulnerability and desperation of low-income households (Morduch, 1998). It is essential to understand that despite being exploitative, these moneylenders play a role in the local economy as people rely on their services, allowing them to continue charging exorbitant rates. Furthermore, these high rates could be rationalised by considering all the risks and costs the formal credit market deems too high to extend credit to the poor (Armendáriz de Aghion & Morduch, 2005). Notably, these high interest rates also hinder investments in both short-term and long-term businesses, as the return is unlikely to cover the cost and interest on the loan. In essence, loans from moneylenders are unlikely to lead to productive outcomes and are probably extended to the wrong people at a cost that is too high. However, the potential of microfinance to break this cycle of poverty offers a ray of hope for a more optimistic future.

As some literature suggests, microfinance interventions or microcredit can theoretically help mitigate and address the barriers faced by these households. Tailored microfinance services are offered to poor and low-income households, assisting in closing the gap and promoting inclusive economic growth to achieve benefits. These benefits can be realised in many ways, which are discussed below. In Ghana, financially excluded households also encounter credit constraints, the alleviation of which is contingent upon various factors. These underpinning factors, to be further explained in subsequent chapters, play a crucial role in shaping the study's framework (as summarised in Figure 1.2) and guiding the research. Understanding these factors is not only important but also engaging, as it allows the study to delve deeper into the complexities of financial exclusion and microfinance interventions.

1.4.4.1 Benefits of Microfinance in Mitigating Financial Exclusion

In a developing country like Ghana, microfinance can address financial exclusion by providing access to credit for low-income individuals and small businesses. These individuals or businesses may have smaller financial resources and face challenges like the need for credit history and loan security. Unlike traditional banks, MFIs offer microcredits that empower recipients to start or expand small businesses, purchase necessary goods, or invest in other productive ventures. This empowering role of microfinance inspires hope for a more inclusive and prosperous future. (ADB, 2020; Pluskota, 2020; Grazioli et al., 2020; Mushtaq & Bruneau, 2020; World Bank, 2017). (ADB, 2020; Pluskota, 2020; Grazioli et al., 2020; Mushtaq & Bruneau, 2020; World Bank, 2017). Technological advancements, such as the introduction of mobile banking (referred locally as Momo in Ghana), digital finance platforms, and online microfinance services, have significantly enhanced the accessibility and effectiveness of financial services. This transformation has widened the reach of financial services to previously unreachable communities. The accessibility may encounter hindrances in the absence of requisite knowledge. Microfinance institutions provide micro insurance products designed to shield low-income individuals and households from various risks, including those related to stocks, health, and assets, thereby establishing a safety buffer for them.

Additionally, these institutions offer secure and easily accessible savings accounts, fostering a culture of saving among low-income individuals. This, in turn, assists them in managing irregular incomes while also reducing their susceptibility to unexpected economic distress. Microfinance is instrumental in fostering economic stability and alleviating poverty by facilitating access to financial resources. This is achieved through microcredits, enabling individuals to establish small businesses, generating employment opportunities and bolstering local economies. As household incomes grow, these families can channel resources into education, healthcare, and improved living conditions, thus contributing to positive socio-economic development. These activities improve household welfare and economic activity, leading to better income, wealth, savings, food security, education, and overall well-being for low-income individuals and families (Boateng et al., 2015; Banerjee et al., 2015; Owolabi, 2015; Adjei et al., 2009; Attanasio et al., 2015). The surge in economic activity and reduction in poverty levels contribute to a more robust social and economic transformation landscape within communities, as noted by the European Commission and Armendariz de Aghion and Morduch (2009). Women, frequently subject to financial marginalisation, derive significant benefits from microfinance services. Numerous microfinance institutions deliberately target women, recognising their pivotal roles in household and community well-being. Access to financial services fosters women's economic and social empowerment, enabling them to make more impactful contributions to their families and communities. The advancement of financial inclusion for women contributes to the promotion of gender equality and facilitates societal transformation, consequently amplifying the overall influence of microfinance.

Understanding financial matters is pivotal for making informed decisions. Many microfinance institutions (MFIs) incorporate non-financial services or education into their services to educate clients about effective financial management, business development budgeting, and various financial products. It is essential to elevate financial awareness and knowledge to enhance access to and utilisation of banking products. This education equips individuals with the knowledge and skills necessary to make sound financial choices, consequently improving their capacity to utilise financial services effectively. Furthermore, financial education enhances individual financial management and nurtures a culture of financial responsibility within communities. Support for this will considerably improve MFI operations, increasing the effect and creating an innovative culture capable of responding to changing market needs, expediting the inclusion process. (Pytkowska, J. et al., 2007). Additionally, microfinance institutions can utilise group lending models, in which small groups of borrowers guarantee each other's loans. This approach minimises the lender's risk and encourages a sense of community and mutual accountability among borrowers. Furthermore, the collaborative nature of these groups fosters the creation of social capital, which can lead to more extensive community development and empowerment**.** (Pluskota, 2020; OECD, 2023; Tarozzi et al., 2015; Pitt and Khandker, 1998 & 2005; Reddy et al., 2005; Collins et al., 2009; Ratna et al., 2015; Augsburg et al., 2015; Angelucci et al., 2015; Attanasio et al., 2015; Barajas & Sahay, 2017). Microfinance has significantly helped to broaden the scope of financial inclusion, extending beyond the provision of microcredit to include many financial products complemented by essential financial education. Diligent use of these financial products can effectively mitigate the plethora of challenges associated with financial exclusion.

1.4.4.2 Factors Affecting Microcredit Outcomes

The literature indicates that microcredit only sometimes works, and its effectiveness is still being determined. It depends on contextual factors, and its use affects success rates. Based on the literature, I have identified factors affecting microcredit and the main and related outcomes to help address the research questions. The rationale for selecting these factors is grounded in their influence on the effectiveness and sustainability of microcredit programmes. Each variable concisely articulates essential components of the borrower-MFI relationship, operational procedures, and financial intricacies. These factors have been discussed and summarised in Figure 1.2.

Total loans borrowed by the service clients are a crucial aspect of microfinance. The aggregate value of loans a borrower acquires indicates their credit history and sustained engagement with the MFI, demonstrating trustworthiness (Demirgüç-Kunt et al. 2009). Examining total loan growth helps understand how microcredit adapts to changing financial needs and borrower management abilities. They involve evaluating the quality of an institution's portfolio, repayment rates, loan sizes, interest rates, and profitability. Loans are essential for the financial sustainability of MFIs and for providing financial services to their clients (Ledgerwood, 1999). The loan cycle is a factor that measures the number of loans a respondent took from the microfinance institution until the research period. This has an impact on the repayment patterns and the confidence of borrowers in the MFI. Borrowers often cultivate creditworthiness and trust over multiple loan cycles. Extended loan periods generally indicate stronger customer loyalty and a more resilient credit relationship, which is essential for evaluating the borrower's steadiness and repayment capacity. The loan cycle in microfinance is essential for evaluating credit efficiency, creditworthiness, and impact, covering the process from loan application to repayment, including potential reborrowing (Giné & Karlan, 2009; Armendáriz & Morduch, 2010). Working capital is a crucial metric that measures how effectively a business manages its short-term assets and liabilities. It is an essential factor for a business's sustainability and growth, playing a pivotal role in its daily operations and the maintenance of liquidity (Hermes & Lensink, 2011). Microfinance institutions can use this measure to evaluate the operational efficiency of their clients. Therefore, working capital is a vital factor in assessing microfinance. It helps to determine the financial health, operational efficiency, and growth of potential borrowers' micro and small enterprises. Additionally, it helps in risk assessment, tailoring financial products, and monitoring client performance.

To effectively evaluate the effectiveness of microfinance interventions in supporting income generation, household expenditure, entrepreneurship, and economic empowerment, it is imperative to understand the business characteristics of micro-entrepreneurs, with size being a critical factor. Banerjee et al (2015) noted that the size of a business determines its growth potential and the scale of operations concerning total sales, assets and number of employees. The interest amount represents the cost of borrowing the microcredit (loan) from the MFI. It is a direct cost for the borrower and is crucial for the financial sustainability of MFIs. High interest rates can affect affordability and repayment capacity, impacting the success of microcredit programmes. Therefore, a balanced interest rate is critical to ensure that borrowers can afford the loans and maintain the viability of microfinance institutions. The higher the cost, the lower the benefit for borrowers. Some microenterprises show high marginal returns, although MFIs and informal money lenders often charge high interest rates for poor and low-income households. It is important to consider the loan use and repayment frequency as they can significantly influence the benefit and effectiveness that borrowers derive from using microcredit, affecting the business or the household. The study's transaction costs comprise charges, fees, and administrative expenses. Cull et al. (2009) stress the importance of evaluating the cost structure of microcredit to determine the accessibility and affordability of financial services for clients. This evaluation entails investigating the operational efficiency, sustainability, and pricing strategies of MFIs. Higher transaction costs diminish the net benefit of borrowing, while lower transaction costs indicate improved operational efficiency within an MFI. This factor can influence pricing strategies and sustainability, potentially transferring cost savings to borrowers and extending service coverage. Together, these independent variables provide an understanding of the factors that affect microcredit. They encompass businesses' financial health and operational needs, the borrower's interaction with microfinance institutions, and microcredit's cost structure.

Additionally, the study employed demographic characteristics of the household as control variables, including education level, household size, gender, marital status, number of years in business, and age of the service clients. These characteristics can influence a client’s microbusiness performance and living conditions (Al-Shami et al., 2014). This methodological decision was made to safeguard the accurate estimation of the effects of the main variables without being confounded by external factors. Employing this approach bolstered the study's validity and robustness, leading to a more dependable, precise, and practical understanding of the impact of factors on microcredit. Furthermore, this method allowed for considering the socio-economic context, accounting for the varying responses to microcredit among different demographic categories. For instance, the literature notes that individuals with higher levels of education tend to exhibit stronger comprehension and management of financial products, leading to successful loan use and higher repayment rates. Moreover, women are frequently preferred in microfinance programs due to their high repayment rates, positively impacting household welfare and contributing to broader socio-economic wellbeing. Households' financial needs and expenditure patterns are influenced by household size, while marital status affects financial stability and household income dynamics. Additionally, the duration of a business's operation can impact its stability and growth potential, and age plays a significant role in influencing financial behaviour and risk tolerance. The above household characteristics provide valuable insights into the factors that impact the effectiveness of microcredit outcomes.

1.4.4.3 Key Findings of the Study

The study selected household expenditures and business turnover as its main outcomes due to their significant impact on individual and broader economic indicators.

Household Expenditure

Research indicates that having access to credit can significantly improve the economic well-being of borrowers, especially through household spending. Household spending is a direct measure of enhanced living standards and financial health. By increasing spending and investing in better living conditions such as food, education, and healthcare, microcredit can effectively improve the quality of life and combat poverty. Additionally, access to microcredit can promote financial inclusion, boost household income through investments in productive activities, and facilitate smooth consumption. As income increases, households typically spend more on various goods and services, with an outcome of enhanced borrowers' living conditions.

Business Turnover

Microfinance institutions commonly provide their clients with microcredit and financial literacy programs to assist them in managing their finances and making informed business decisions. While previous research on the effectiveness of these programs has yielded mixed results, participation in a microcredit program can significantly impact a business's growth in terms of turnover, total assets, and equity (Yusgiantoro et al., 2013). Business turnover serves as a direct measure of economic activity. It demonstrates the success of small enterprises that have received microcredit funding, shedding light on whether these funds result in increased business revenues. A higher turnover indicates thriving businesses, aligning with the core objective of microcredit programmes to facilitate entrepreneurship. Enhanced business turnover yields cascading benefits, not only for borrowers but also for the wider community. Furthermore, higher business turnover signifies successful businesses capable of repaying loans, thus ensuring the financial stability and sustainability of microfinance institutions (MFIs) and enabling them to extend credit to more borrowers.

Using household expenditure and business turnover as the study's main outcomes provides an inclusive view of microcredit's effectiveness. Household expenditure captures the immediate effects on borrowers' living standards, while business turnover assesses the longer-term sustainability and economic benefits of microcredit. To sum it up, Woller (2004) notes that the impact causal chain model posits that providing loans and training contributes to enterprise formation, expansion, and investment in working capital and productive assets. This increases business returns, creating more jobs and increasing household income. As a result, households have more money to spend on consumption, asset accumulation, and investment in human and physical resources. With increased access to financial services, poor and low-income households can potentially better cope with risks and improve their livelihood strategies, ultimately making them less vulnerable to financial instability.

To address the study's objectives, I set out to investigate the following research questions.

1) What factors affect the impact of microcredit on business turnover and the living standards of beneficiaries?
a) To what extent do household characteristics account for the success or failure of microcredit?
b) To what extent do borrowers' loan and business characteristics affect the outcomes of microcredit?
2) Does microcredit impact the living standards of beneficiaries, as measured by household expenditure?

a) What is the impact of microcredit on borrowers' business performance?
b) What is the impact of microcredit on beneficiaries' household expenditure?

The thesis then investigates the validity of this view by testing the following hypothesis.

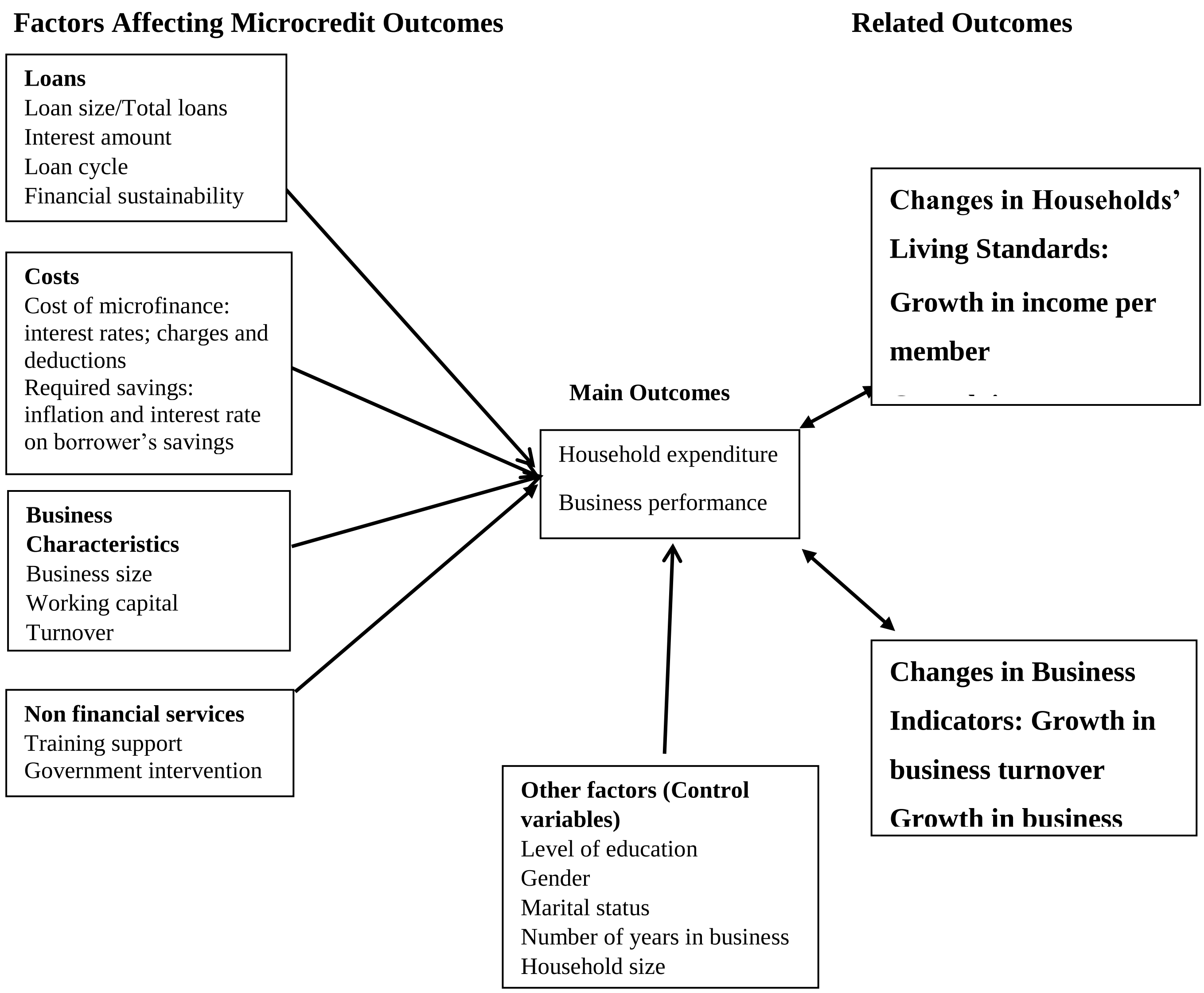
Null Hypothesis: **Ha_0:** Microcredit does not have an impact on household expenditure.

Alternative Hypothesis: **Ha_1:** Microcredit does have impacts on household expenditure.

Null Hypothesis: **Hb_0:** Microcredit does not have an impact on business turnover.

Alternative Hypothesis: **Hb_1**: Microcredit does have impacts on business turnover.

Figure 1.2 Components of Microcredit Intervention



1.5 Conclusion

The chapter explores and critically evaluates the existing research and debates relevant to microfinance. Reviewing the debate helps build knowledge vis-a-vis studying the concepts, research methods, and experimental techniques used in existing studies. As a result, it proffered the opportunity to identify areas of debate and disputed claims, highlighting any gaps that may exist in research to date. Furthermore, the chapter explores the issue of financial exclusion, a topic that has received significant attention, particularly in emerging and developing nations. The potential causes and challenges of financial exclusion were discussed while highlighting the strategies employed to promote financial inclusion and better access to finance through microfinance. Microfinance has become a promising solution in countries like Ghana. Microfinance programmes and institutions have emerged as a significant component of development strategies. Despite their importance in the Ghanaian economy, there needs to be more knowledge regarding the achievements of these initiatives, which is further compounded by divergent views. In microfinance, tailored services, including access to credits, are offered to these underserved households, assisting in closing the gap and promoting inclusive economic growth to achieve benefits. These benefits can be realised in many ways, as discussed. Accordingly, the chapter discussed how having access to microcredit can address financial exclusion in Ghana. However, the literature notes that microfinance only sometimes works. Households excluded from the financial system encounter limitations in obtaining credit. In the context of Ghana, mitigating these constraints and microcredit's ability to work are subject to specific factors. These underpinning factors were also discussed and illustrated. Finally, the chapter presents an overview of the research questions to be investigated and the hypotheses to be tested in the study.

The next chapter will contextualise Ghana's geographical information and its economic history. The aim is to provide a comprehensive overview of the country's socioeconomic indicators, including the population, economy, and poverty levels, along with the Ghana microfinance background. While there have been indications of a decrease in poverty levels over the last decade, poverty remains prevalent, especially in the savannah regions of Ghana. Despite the government's various programmes and policies implemented over the years, more progress has yet to be made. Therefore, a section of the next chapter will discuss the background and the concept of Ghana microfinance that the government could adopt to improve low-income earners' living standards.

CHAPTER TWO

GHANAIAN ECONOMY, PRE AND POST INDEPENDENCE PERIODS

2.0 Introduction

The chapter provides the geographical, historical and economic context of Ghana within which this study takes place. There is a presentation of background information that includes the past and present set of circumstances concerning low-income prevalence and welfare. It also highlights the income inequality in Ghana and the different strategies successive governments employ to ease the suffering of such incidences.

The fundamental structural changes in the economy and the growth experienced from a cross-country perspective have been categorised into six sub-periods of policymaking phases. They focus on the different economic developments and climates identified with the different political administrations of the country, as emphasised by Fosu and Aryeetey (2008), Kolavalli et al. (2011), Jedwab and Osei (2012) and Bawumia (2013).

The first is the colonial period before Ghana gained independence in 1957, and the second is from independence until the coup in 1966. The state-led driven developments mainly marked this period. Most economic developments are led by the self-directed and bureaucratic elite who identified with the ultimate objective of building an industrial economy competitive on the free global market. The next phase came after the coup when some liberalisation measures began until the second coup in 1972. The fourth is from the subsequent government overthrow until the Economic Recovery Programme (ERP) in 1983. This period could be referred to as the neo-liberal development era. Whereas the term's meaning can differ in its use, for this study, it refers to the set of economic policies that involve lowering taxation, increased privatisation, and economic deregulation. This era entails an intervention from the state when the economy is scaled back to essential functions of social order, governance, defence and the protection of property rights.[24] The next phase is the years of stabilisation and adjustment between 1983 and 1992, and the last, the post-reform period from the elections of 1992 onwards (the fourth republic).

A section in the chapter thoroughly examines the country's microfinance sector and how it has progressed over the years. This includes the different types of MFIs and the regulatory framework they operate in the country, the level and degree of outreach and the difficulties the sector currently faces.

2.1 The Gold Coast

Ghana, formerly known as Gold Coast, with a total size of 238,533 square kilometres, is located in West Africa (CIA 2017). It became the first country in the sub-Sahara to gain independence in 1957 under the leadership of Dr. Kwame Nkrumah. The country's official language is English, but Ghana borders at the south by the Gulf of Guinea and three French-speaking countries: Cote d'Ivoire, Burkina Faso and Togo at the west, north and east, respectively (See Figure 2.1). The country is divided into sixteen administrative regions, with Accra, the capital city, in the Greater Accra Region. The country has been a long-standing member of the United Nations (UN), the African Union (AU) and the Economic of West African States (ECOWAS). Ghana has been politically stable for the past three decades relative to other countries in the region. Following peaceful transitions of power from one government to another and the recent elections and peaceful transfer of power in January 2021, Ghana has been confirmed to be one

[24] (Bockman 2011).

of Africa's most stable democratic states (Aykut et al. 2017). Nevertheless, there are still some ethnic conflict incidences, particularly in the northern part, where poverty is also prevalent.

Figure 2.1: The Map of Ghana and Bordering Countries

Source: Encyclopaedia Britannica, Inc. 2017

According to the World Bank (2017), the data from the World Development Indicators show that although population growth has slowed in recent years, it remains high. The literature indicated that Ghana had a population of about 14.63 million in 1990, distributed with a population density of 64.3 per square kilometre. The population then rapidly increased from around 19 million in 2000 to 28 million at the beginning of 2016, resulting in the subsequent population densities as depicted in the table. The 2010 Population and Housing Census indicated that almost 49 per cent (48.8 per cent) of the population are males, while females represent 51.2 per cent. With the current growth rate of 2.2 per cent, the population is estimated to increase to about 40 million by 2040 (NPC 2017).

In addition to this set of circumstances is the current average fertility rate of 4.1, which puts pressure on the government to improve social services like education and health facilities (Adjei 2009).

Table 2.1: Ghana Selected Indicators, 1990 – 2016

	1990	2000	2010	2016
Population, total (millions)	14.63	18.94	24.51	28.21
Population growth (annual %)	2.7	2.5	2.5	2.2
Surface area (sq. km) (thousands)	238.5	238.5	238.5	238.5
Population density (people per sq. km of land area)	64.3	83.2	107.7	124
Life expectancy at birth, total (years)	57	57	61	61
Fertility rate, total (births per female)	5.6	4.7	4.3	4.1
Mortality rate under 5 (per 1,000 live births)	127	101	75	62
Forest area (sq. km) (thousands)	86.3	89.1	92	93.4
Urban population growth (annual %)	4.7	4.2	3.9	3.4

Source: World Development Indicators database, 2017

2.2 Structural Economic Transformation

From a cross-country viewpoint, the underlying structural changes in the economy and the growth experienced have been organised into the policymaking phases below for better organisation.

2.2.1 Pre-independence (up to 1957) Period

Prior to independence, the economy of Ghana was more agricultural-based, emphasising the production of export commodities such as coffee, cocoa, oil palm, etc. A little consideration was given to the non-commercial production or the increase of primary food crops for local consumption in Ghana, unlike the aforementioned (Brooks et al. 2007). According to the authors, with the colonial control of other sectors of the economy, the policy's emphasis was predominantly on natural resource extraction. During the period, some of the resulting machinery of government intervention, mainly marketing boards, were established. For instance, the Cocoa Marketing Board (CMB), an essential colonial government institution, was set up during the Second World War to exclusively gain control over cocoa buying. Prior to 1951, the bulk of the profits made by the CMB was channelled into the board's reserve funds.

Nonetheless, in 1951, the British handed over the internal self-control of the CMB to Ghana, and the profit realised was absorbed into general public investment. In addition, Dr Kwame Nkrumah invested Ghana's accumulated reserves from the cocoa earnings in order to bolster the country's economic and social developments. Besides, when the CPP government led by Kwame Nkrumah came to power in 1952, they sought to develop an economic system based on self-sustaining growth, with an integrated and advanced manufacturing sector setting the tone for the rest of the economy when it came to power in 1952. The Cocoa Duty Bill, which fixed the price paid to cocoa farmers in 1954 to limit their riches and channel the surplus to government revenue, was passed by the Ghanaian Parliament. The bill imposed state control over trade. Farmers received £116 per tonne of produce for four years regardless of market pricing. The government received excess profit from cocoa exports, which resulted in huge revenue increases. In 1957, the first year of Ghana's full independence, government revenue from this source was £22 million, amounting to 37 per cent of total revenue (Hecht 2020).

2.2.2 1957-1966 Period

Ghana gained independence from British colonial rule in 1957 under the leadership of President Kwame Nkrumah and the Convention Peoples Party (CPP). At independence, the gold-based economy was relatively stable and prosperous. During this period and until 1964,[25] the country became the world's leading cocoa producer with a vibrant, well-developed infrastructure to service trade and enjoyed a proportionately progressive educational system (Berry 1995). Ghana had one of the highest per capita incomes in Sub-Saharan Africa. The country began to use the apparent stability to its advantage to expand and diversify its economy. Following the existing economic development philosophy, the Nkrumah government embarked on an import-substituting industrialisation policy (ISI) (Berry 1995; Aryeetey and Harrigan 2000). The reason for Nkrumah's strategy was that industrialisation could be achieved through development and that the excess resources obtained from the agricultural sector, for instance, cocoa, had to be used to augment the industrial sector. The policy was implemented partly through the formation of state enterprises as directed by the declaration of the United Nations affirmation of the First Development Decade (1960-1970). Among other objectives, the UN Development Decade sought to implore all member states to intensify their efforts to mobilise and bolster support for the measures required to accelerate progress towards a self-sustaining growth of the economy and social advancement of the individual countries, particularly the developing ones (Blough 1965, STEPS Centre 2017). Berry (1995) reports that in the process of moving the country to a mixed agricultural-industrial economy, Kwame Nkrumah borrowed

[25] Four distinct phases can be identified in regard to cocoa production in Ghana: introduction and exponential growth (1888–1937); stagnation followed by a brief but rapid growth following the country's independence (1938–64); near collapse (1965–82); and recovery and expansion, starting with the introduction of the Economic Recovery Programme (ERP) (1983 to present) (Kolavalli & Vigneri 2011).

to establish domestic industries to produce import substitutes. The policy also aimed to boost income from commodity exports.

In addition, the government promoted the idea of collective or governmental ownership and administration of the means of production and distribution of goods. To a greater extent, it adopted and pursued an ideology of a socialist political system. (Fosu and Aryeetey 2008; Bawumia 2013). Meanwhile, the government's manifesto pledged free education to all school-going age under 16. This is in addition to a free national health service, mechanised agriculture, and rapid industrialisation (Fosu and Aryeetey 2008). These promises from the manifesto were implemented without significant challenges because of the substantial foreign exchange reserves ($273 million) the CPP government inherited from the British. It is worth mentioning that Ghana did not have any significant external or domestic debt hitherto the period, and the population was less than 7 million. To make the situation more apparent, in 2008, Ghana, with a population of some 23.0 million, had gross international reserves of $2.03 billion and a total debt stock of GH ¢9.5 billion ($ 8 billion)[26]. That is to say, the CPP government at the time did not have the severe economic pressure faced by other governments that followed[27].

Furthermore, the Nkrumah government launched a Seven-Year Development Plan: 1963/64-1969/70. This plan's purpose was to modernise Ghana's economy through industrialisation.

[26] Bawumia (2013). Discipline in Economic Management

[27] Fiscal policy was expansionary under the CPP government. Expenditure on education, health, and physical infrastructure such as schools, roads, dams, hospitals, electrification etc. markedly enlarged relative to their colonial levels. Many development projects were successfully financed from the inherited foreign exchange resources. Examples are Tema Harbour, Cape Coast University, Kwame Nkrumah University of Science and Technology, Accra-Tema Motorway and the Akosombo dam. The others include Black Star Line, Construction of numerous schools and hospitals notably, Ghana Medical School and Okomfo Anokye Hospital. Ghana Atomic Energy Commission and many state-owned enterprises and farms were also established - Ghana Airways, Tema Food, GNTC, State Hotels, GIHOC, State farms etc. (Bawumia 2013).

Therefore, physical capital accumulation became the most significant contributor to output growth in the government's early period, as shown in Table 2.2.

In spite of these developments, the economy was not as strong as it should be. According to Fosu and Aryeetey (2008), a warning sign of an annual projected fall in Total Factor Productivity (TFP)[28] of 1.6 percentage points during 1960-64 indicates economic decline. This postulates that the higher input growth was probably not efficiently distributed. There was a significant drop in levels of the external reserve over the years. The recorded reserves in 1966 stood at -US$391 million compared to the US$269 million achieved in 1957 (Frimpong-Ansah 1991). As a result, Ghana's credit rating became poor, with a declining balance of payments position. There was also a reduction in the broad measure of the country's total economic activity (GNP), which fell to only 8 per cent in 1966 from the 18 per cent reported in 1958. Ghana reported three consecutive years of either zero or negative growth in per capita GDP between 1964 and 1966. Consequently, there was a rise in inflation from less than 1% in 1957 to nearly 23% in 1965 (ibid).

Bawumia (2013) notes that the other major problem confronting Nkrumah's development plans came from the strict measures for the monetary discipline framework provided by the British West African Currency Board (WACB)[29]. Under these colonial international economic arrangements, any intent of the government to print money was to be backed by an increase in foreign reserves. However, this did not help Nkrumah's plan, which desired a banking system to augment his development plan. Meanwhile, the Bank of Ghana, set up in 1957, sought to

[28] Total Factor Productivity (TFP) is the share of output not explained by the amount of inputs used in production. Therefore, the efficient and intense use of inputs determines its level (Comin 2008).

[29] The British WACB, a colonial monetary authority, was set up in 1912 to "provide for and to control the supply currency to the British West African Colonies, Protectorates and Trust Territories" (Uche 1997, p1)

impose monetary discipline similar to the WACB arrangements. The Bank of Ghana Ordinance stopped various political machinery from interfering in the central bank's activities and avoided the arbitrary use of the Bank's and the country's resources. By 1960, the country's deficits were rising, but the option to finance using foreign reserves was inadequate. Again, the CPP government had also wholly used up its bank balances and begun borrowing from the banking system. Therefore, in 1960, the Government of Ghana began to issue Treasury Bills, and under the 1961 Exchange Control Act, import restrictions were introduced to further limit the loss of foreign exchange reserves. Also, the Bank of Ghana Act 1963 was enacted to escape from the monetary discipline that WACB arrangements seemed to enforce. By this time, Dr Nkrumah had the central bank print money as needed, and he appeared to overspend its budget. The development drive of the government soon affected the economy. Some state-owned organisations started to operate at a loss, negatively affecting the public finances. In 1965, the government had overspent, and its expenditure exceeded 29.0 per cent of the GDP from the previous 10.0 recorded in 1957. Again, the government budget balance weakened from a surplus of 15.0 per cent of GDP in 1954 to a deficit of 6.4 per cent of GDP by 1965. The financial difficulties were compounded by Ghana's susceptibility to the world trade market when there was a drop in the price of cocoa, a significant source of foreign exchange, in 1965. In the face of the deteriorating economic and political state of affairs, the National Liberation Council (NLC), led by a group of army and police officers, overthrew the CPP government on 24 February 1966. The military coup d'état and its attendant problems further destroyed the economy's fundamental stability. Consequently, Ghana experienced a drop in the foreign currency necessary to repay its debts and plunged into a vicious cycle of debt (Berry 1995, Bawumia 2013).

2.2.3 1967-1972 Period

On assuming office, the NLC soon introduced IMF-sponsored monetary reforms to fix the poor balance of payment, reduce the budget deficit, improve private enterprise, and liberalise the external sector (Bawumia 2013 Frimpong-Ansah 1991). Therefore, under the NLC, the disinflationary policies implemented to strengthen the macro-economy somewhat yielded decreased (public) domestic investment, stringent control over import licenses and a devaluation of the Cedi (Killick 1978). This resulted in a healthy balance of trade and a reduction in the government's current account and budget deficits (Killick 1978; Ewusi 1986). According to Frimpong-Ansah (1991), inflation decreased from an average of 18.0 per cent to a single-digit average of 9.0 per cent between 1967 and 1969. Subsequently, the NLC transitioned power in 1969 to a civilian elected Progress Party (PP) government of Dr K.A. Busia. Although the then-incoming PP government inherited a relatively better economy than the previous decade, the economy was still struggling to make progress from the debts of the Nkrumah administration and the fiscal excesses due to previous extreme spending. It is worth mentioning that the ideological position of both NLC and Busia was similar, pro-private capital oriented, and was much opposed to Nkrumah's "socialist" policies. Dr. Busia's vision was established on the principles of free governments, representative governments, multiparty democracy, free press, the rule of law and principles of democratic accountability (Bawumia 2013). Despite the gains made by the government with its rural development agenda, the economy was, to some extent, struggling and was in a similar position as it was in 1965, with reduced growth and mounting fiscal and current account deficits (Fosu and Aryeetey 2008; Frimpong-Ansah 1991; Ewusi 1986; Killick 1978). Bawumia (2013) notes that the worsening economic situation was triggered by a sudden fall in cocoa prices, which resulted in a balance of trade deficit. To arrest the situation, the government countered with cuts in its expenditure and a devaluation of the national currency by 42.0 later in 1971. The attempt to enforce fiscal discipline through the devaluation and the initial economic difficulties was used as a plausible reason to overthrow the government through a coup d'etat on 13 January 1972. The National Redemption Council executed the coup under Colonel I.K. Acheampong.

2.2.4 1972-1983 Period

Between 1972 and 1983, the period experienced one of the most significant continuous economic degeneration under five "different" governments[30] (Fosu and Aryeetey 2008). Not by any manner of means could one postulate that the different governments pursued the same policies. Nonetheless, during this period, most policies under these governments were characterised by import substitution, reinforced by rationed foreign exchange management, quantitative controls upon imports, and price controls. The government was a major and active player as a producer. Tabatabai (1986) notes that the considerable shrinkage observed between 1970 and 1983 constituted a drop in GDP per capita by not less than 3% per annum, industrial output by 4.2% per annum, and agricultural output by 0.2% per annum. Cocoa, timber and mineral productions that formed the principal basis of the economy were on the decline. There was a dramatic drop in cocoa exports from 382,000 metric tonnes in 1974 to 159,000 metric tonnes in 1983 (World Bank, 1987). Whereas the exports of minerals dropped from an index

[30] Five different governments were formed during the period of 1972 and 1983. They are the National Redemption Council led by Colonel I K Acheampong (1972-1975), Supreme Military council Supreme Military Council led by Colonel I K Acheampong (1975-1978) and Armed Forces Revolutionary Council led by Flight Lieutenant JJ Rawlings. These were all military governments. The others are a civilian government of People's National Party led by Dr Hilla Limann (1979-1981) and another military government Provisional National Defence Council that was led by Flight Lieutenant JJ Rawlings (1981-1992)

value of 100 in 1975 to 46 by 1983, production of starchy staples declined from nearly 8 million tonnes in 1974 to about 4 million tonnes by 1983 (ibid). It is worth mentioning that while the most severe drought in the history of Ghana affected food production in 1983, the drop was major because of a considerable migration suffered by the rural sector. It is noted that the worsening economic conditions and the 1973 oil boom in Nigeria played major roles in luring over two million Ghanaians to migrate in search of a more promising situation in Nigeria. Meanwhile, in Ghana, there was a high demand for food imports, exorbitant food prices and the diminishing capacity to import adversely affected agriculture and other inputs.

Consequently, the central government revenues extremely dwindled. Central government revenues equalling 21 per cent of GDP in 1970 declined to only 5 per cent of a smaller GDP in 1983 (Tabatabai 1986). There was over-dependence on the banking system to finance expenditures because of the revenue breakdown. Accordingly, there was an expansion in the monetary base, which increased from ¢697 million to ¢11,440 million between 1974 and 1983 (Fosu and Aryeetey 2008, IMF 1987). In addition, inflation surged from 18.0% in 1974 to nearly 117% by 1981 in the middle of a system of controlled prices. In the same period, real interest rates declined to a negative, and both domestic savings and investment shrank to less than 4% of GDP from the previous 12% and 14%, respectively (IMF 1987). However, the following governments persisted in overvaluing the cedi currency by keeping up a fixed exchange rate in the face of high inflation (Bawumia 2013). Actually, the World Bank (2005) asserts that by 1982, the parallel exchange rate of the Cedi was 22 times that of the official rate.

Subsequently, by 1983, the current account deficit had jumped from US$ 2.7 million in 1975 to US$ 294 million. The deficits consumed the official gross foreign reserves and aided in building up external debts (IMF 1987). The aggregate of the accumulated debts was equivalent to 90% of annual export earnings in 1982 (ibid). To arrest the decline in the economy, the governments introduced import controls. However, consumer goods excessively bore the controls' brunt, reducing per capita GDP by more than a third between the early 1970s and 1983. This perhaps suggests firm evidence of the severe economic decline in Ghana. Therefore, under the chair of Flt. Lt. Jerry John Rawlings, the Armed Forces Revolutionary Council (AFRC), used this as an excuse to overthrow the Supreme Military Council by coup d'état in 1979. However, just after four months at the helm of affairs, the AFRC gave back power to a democratically elected government of the Peoples National Party (PNP) under the leadership of Dr. Hilla Limann. At the beginning of his tenure, Dr. Liman attracted attention from the IMF when he tried to negotiate a loan to revive the economy. As one of the requirements, the IMF insisted that the government devalue the Cedi.

When this requirement was not met, Ghana's request for the loan was denied. The continued deterioration of the economy and the power struggles within the PNP became the pretext for yet another military coup d'état. The Provisional National Defence Council (PNDC), led by, once again, Flt. Lt. Jerry John Rawlings took power on 31 December 1981 and blamed the PNP for economic mismanagement and corruption. Fosu and Aryeetey (2008) note that economic policies of interventionist and anti-foreign capital characterised the initial period under PNDC. The authors assert that these policies aimed to increase the state's control of essential services to 'protect' the people from programmes that were seen as exploiting the citizens. Foreign-produced goods imported into the country were subjected to price control, high import duties and tariffs.

The regime became hostile towards both IMF and World Bank-supported programmes seen as the Western imposition of austere economic measures on developing countries. Also, the PNDC government introduced the so-called "anti-corruption" measures to turn the economy around. Still, it became evident that the populist socialist policies did not alleviate the pressure on the monetary system. Bawumia (2013) states that more money was printed in an attempt to finance government budget deficits. Accordingly, this resulted in a sharp increase in inflation by more than 123%. However, Fosu and Aryeetey (2008) attribute the economic decline to several factors. The attributed factors include the extreme Sahelian drought, periodic bushfires, the flight of capital from the country and the persisting poor performance of the economy. According to the authors, eventually, the government had to turn to the World Bank and IMF for help when more than a million Ghanaians were deported from Nigeria. Perhaps this re-orientation, one may postulate, marked the beginning of Ghana’s reforms.

2.2.5 1983-2000 Period

The economy was on the verge of collapsing in the following years, with the per capita gross domestic product (GDP) showing negative growth in some years. There was a sharp fall in production rates and standards of living. The 1983 government budget was characterised by accepting a stabilisation programme, which the IMF and the World Bank heavily backed. The PNDC government’s noticeable change of course and subsequent adoption of the programme was perhaps in the same direction as the many African governments who had earlier adopted the Structural Adjustment Programmes (SAP) to stabilise and improve their economies (Agyekum 1997). Consequently, Ghana launched its own SAP called the Economic Recovery Programme (ERP) under the guidance of the World Bank and the IMF (Butler 1994). Two ERP phases were involved: ERP 1 (1983-1986) was the stabilisation phase, and ERP II (1987- 1989) was the structural adjustment and development phase. The ERP policy sought to lay the foundations for the continuous growth output and achievements of external payment viability over the medium term.

Generally, the elements of the ERP policy were the following:

a) realignment of relative prices to encourage productive activities and exports, and strengthening of economic incentives;
b) a progressive shift away from direct controls and intervention towards greater reliance on market forces;
c) the early restoration of fiscal and monetary discipline;
d) the rehabilitation of the social and economic infrastructure; and
e) the undertaking of structural and institutional reforms to enhance the economy's efficiency and encourage the expansion of private savings and investment (Rawlings 1991, IMF 1991).

However, the programme was launched in Ghana to serve two specific purposes. The first task was to reverse the prolonged period of economic decline due to weak financial management and soaring inflation rates. The second purpose was to curtail the needless considerable government involvement in the economy. Therefore, it was to reduce Ghana's debts and enhance its trading position in the global economy (IMF 1998; SRI International & The Services Group 1989; Berry 1995).

The ERP policies adopted by the government yielded a wide range of outcomes, including the areas of productivity and debt. However, the effects of the policy on the economy appear to be mixed. On the one hand, the policies helped to enhance Ghana's international financial position. The country was able to make loan repayments. Although it could not completely wipe out the foreign debts, Ghana entered the international capital market for the first time in almost two decades. The market-oriented ERP achieved progress in reducing macroeconomic imbalances and liberalising the external sector. There was the promotion of the export sector and an enforced fiscal stringency, which together aimed to eradicate budget deficits. Export volumes increased by more than 10 per cent in 1986, and the country's infrastructure was given a significant reconstruction through a US$4.2 billion programme, with the bulk of the money provided by external sources. In addition, increased imports financed by the IMF, the World Bank, and other sources made the rehabilitation and repair of some major parts of the infrastructure possible through the supply of spare parts and inputs for industry, mining, utilities, and agriculture.

Despite the apparent impressive macroeconomic gains at the national level, critics maintained that the programme had failed to achieve the fundamental transformation of the economy. Berry (1995) notes that Ghana's economy's recovery still seemed uneven, mainly geared toward the export rather than the domestic market. The criticism included disregarding the plight of those not involved in the export sector. This emanates from the substantial shift in resources toward designated cocoa rehabilitation and other export sectors, not food production. Consequently, it is argued that not many Ghanaians have benefited from the programme. There had been an average increase of 5 per cent per year in the GDP since 1984, a reduction of inflation from 123 per cent to approximately 20 per cent and a US$1 billion in export earnings. However, other factors were still against the economy due to some austerity measures. This period of difficult economic conditions is linked to the devaluation and a counter devaluation of the local currency. During most of the period, price controls were in force, and there were changes in economic policy that were later followed by reversals. It is worth mentioning that the highest peak in inflation was experienced against the backdrop of the launching of the ERP in 1983 (Fosu 2001). Again, there was a substantial social cost through job redundancies and decreased public expenditure strategies.

Consequently, salaries were low, and Ghana's many low income and poor faced the adverse effects of the austere programme. Moreover, in 1999/2000, when the prices for Ghana's two main exports, cocoa and gold, declined, and the oil prices went up, the vulnerability of the country's economy was exposed. This resulted from the continuous high fiscal deficits and the declining foreign exchange reserves. This is further compounded by the increase in the debt burden, with the external debt/GDP ratio rising from 27 per cent of GDP in 1984 to 103 per cent of GDP by 1994 and a further jump to 182 per cent of GDP by 2000 (Bawumia 2013). This perhaps could indicate that the country was having difficulty servicing its debts.

To mitigate the seemingly adverse effects of the ERP, the government, supported by external donors, introduced yet another programme. A US$85 million Programme of Action to Mitigate the Social Costs of Adjustment (PAMSCAD)[31] was launched in 1988. PAMSCAD was primarily aimed at the poorest individuals and was required to create more than 40,000 jobs over two years. The jobs sought to benefit artisans and small-scale miners, and the rural groups were to be assisted in executing labour intensive self-help projects (Berry 1995). There was a budget of GH₵ 1 million in 1993 for the rehabilitation and development of rural and urban infrastructure to support and fulfil what the PAMSCAD ought to achieve. In addition, the programme was designed to improve health care, water supply, primary education and sanitation. Once more, approximately GH₵ 5 million was budgeted by the government for redeployment and end-of-service benefits for those individuals who had been made redundant in the civil service and parastatal reorganisations as a result of the policies pursued by the government. However, Gayi (1991) notes that the foundation of the PAMSCAD in Ghana was

[31] PAMSCAD was launched as a short-term action strategy to enhance the "sustainability and acceptability of the ERP" (Republic of Ghana, 1987:1-2)

as ambiguous as that of its parent adjustment programme, the ERP. The fundamental problem areas that reduced the effectiveness of the PAMSCAD included the design and formulation of projects, monitoring and funding. Others consisted of implementation, targeting, long-term sustainability, political interference and the neglect of non-governmental organisations (NGOs). Eventually, the impact of the PAMSCAD was less felt, and the programme could not address the problems created because of the implementation of the ERP (Berry 1995; Gayi 1991).

Over the years, it can be observed that the subsequent governments have used different strategies to strengthen the country's economic policies, and these programmes have helped to make considerable progress in restoring macroeconomic stability. Despite some tough shocks, for instance, an energy crisis experienced in 1998 and a terms-of-trade shock in 1999[32], somewhat there was a steady increase in some economic indicators. The growth achieved in the macroeconomic and structural reforms indicates that if the governments adopted the right policies, Ghana could achieve the objectives of the Ghana-Vision 2020 strategy[33] (Leite et al. 2000).

[32] Ghana experienced an external terms of trade shock in the later part of 1999. The main export prices of the country - gold and cocoa - fell at the same time when the prices of oil on the international market substantially increased. These developments led to a lack of foreign exchange as well as a worsening fiscal position. In fact, in 1999, the exchange rate of the cedi depreciated by 40% (WTO 2001).

[33] Vision 2020 document was brought together by the National Development Planning Commission (NDPC), Ghana, as a master plan for sustainable socio-economic development. It identifies the integration of science and technology in programmes as the best way Ghana's resources can be readily used to obtain progress in the economic while preserving the integrity of the environment (UN 2001).

2.2.6 2001-2008 Period

The election conducted in December 2000 ushered in a new civilian government, the New Patriotic Party (NPP), under the leadership of President John Agyekum Kufuor. This ended almost two decades of Jerry John Rawlings' rule, and many commentators, particularly economists, greeted this as pivotal to the country's transition to a new economic philosophy. In effect, the Ghanaian economy reaped the benefits of macroeconomic and structural reforms and practically fifteen years of political stability under the Fourth Republic. The government's fiscal position improved over the years. This happened because of the debt respite arranged under the Heavily Indebted Poor Countries (HIPC[34]) debt reduction programme, in addition to the then debt reduction promises by the G8 countries. Other contributory factors include the adoption of a robust mobilisation of domestic revenue and careful expenditure management. Simultaneously, the adopted monetary policy lessened the inflationary fears, which reduced the cost of borrowing and offered stability in the foreign exchange market (OECD 2006). Ghana's economic growth increased from 3.7% in 2000 to 8.4% in 2008. Likewise, the country's economy increased from nearly \$5.1 billion to \$28.5 billion. Therefore, there was economic growth from a low-income HIPC economy to a lower-middle-income economy on the brink of developing market status (Bawumia 2013). The author further noted that the strict limits of the central government's borrowing requirements helped stabilise most

[34] The HIPC Initiative was launched in 1996. It is a joint IMF–World Bank comprehensive approach to debt reduction, and it is designed to ensure that no poor country faces a debt burden it cannot manage. Since then, debt reduction packages under the HIPC Initiative have been approved for over 36 countries, 30 of them in Africa, providing more than \$76 billion in debt-service relief over time. The international financial community, including multilateral organisations and governments, have collectively worked to decrease to sustainable levels the external debt burdens of the most heavily indebted poor countries. In 1999, an extensive review of the arrangement created the opportunity for funds to provide faster, deeper, and broader debt relief and reinforced the links between debt relief, poverty reduction, and social policies. (IMF 2018)

macroeconomic indicators between 2001 and 2007. Accordingly, upon successful HIPC completion, the debt-to-GDP ratio decreased from 182% in 2000 to 32% by 2008. It is worth mentioning that the period from 2001 to 2007 recorded one of the lowest depreciations of the cedi in any seven-year period since exchange rates were market-determined.

In the social protection interventions, the government introduced several initiatives as part of its policies to reduce poverty in the country. The highlights of these initiatives include launching the US$50 million Microfinance and Small Loans (MASLOC[35]) fund and participating in the aforementioned World Bank/IMF HIPC Initiative. Others include signing the Millennium Challenge Corporation (MCC), providing $547m for antipoverty programmes and increasing the minimum wage from US$0.60 to $2.25. Perhaps Bawumia (2012) rightly summarised this in his keynote address. He asserts, "with the implementation of the HIPC initiative that came with a lot of other poverty alleviation mechanisms such as the Ghana Poverty Reduction Strategy (GPRS I and II), the Livelihood Empowerment Against Poverty (LEAP), National Health Insurance Scheme (NHIS) and Capitation Grant, the nation was gradually experiencing economic as well as rural development" (Bawumia 2012:5). Some of these initiatives, particularly MASLOC and LEAP funds, made micro-loans available to the productive population. They provided direct cash transfers to low income and poor households in Ghana who could not support themselves. This led to the general perception that, for the first time in the history of Ghana, borrowing became easy to access and cheap. This prompted the microfinance companies and, to some extent, the major banks to go on the streets to encourage

[35] MASLOC provides micro and small loans for start-ups and small businesses with fast, easy and accessible microcredit and small loans to grow and expand their businesses as well as to enhance job and wealth creation. It is committed to growing and developing small and micro businesses through the provision of sustainable microfinance, small loans and business services to Ghanaian entrepreneurs.

small-scale business people to apply for loans. On the LEAP, for instance, the beneficiary households increased from nearly 2000 in 2007 to more than 77000 as of 2014, and the number was projected to be 90000 by the beginning of 2015 (Kale-Dery 2014). Other interventions introduced by the then government included the Ghana School Feeding Programme, Free School Uniform, Free Exercise Books, and the Presidential Special Initiative (PSI). In addition, the government signed the Millennium Challenge Corporation, providing $547m for antipoverty programmes. However, due to an increase in government spending during the general election in 2008 and the failings in the fiscal situation in the year resulted in an exchange rate depreciation of 20.1%.

2.2.7 2009-Present Day Period

The general election of 2008 brought in the inception of a new government of the National Democratic Congress (NDC) under the leadership of Professor John Evans Atta Mills. According to Bawumia (2013), the new NDC government inherited an economy growing at 8.4% without the benefit of oil production. With crude oil coming on stream, the economy grew by nearly 15% in 2011 due to oil production. Predominantly, the non-oil sectors of the economy, agriculture, industry and services were still growing slower than they did in 2008. The real GDP growth in 2012 was nearly 8.0 per cent, indicating that the non-oil sectors did not yield the expected growth, notwithstanding the oil production. The seemingly conspicuous decline in economic activity resulted in weakened consumer confidence, high unemployment, and increased poverty. Ghana’s budget deficit at the end of 2012 was nearly GH ¢9 billion. This was equivalent to 12.0% of GDP using the rebased GDP numbers and represented Ghana's biggest recorded budget deficit. This presupposes that the government abandoned all fiscal discipline to win the 2012 elections. This emanates from the government increasing spending to almost 35% of GDP, albeit its revenues amounted to a little over 16% of GDP for the year. As has been the case after every election for an increased cost of living, the one conducted in 2012 was no exception. This is because the economy experienced high interest rates, a weakening currency and increased utility prices. There were challenges in meeting statutory payments like DACF, GETFUND and NHIS. In addition, programmes such as School Feeding, National Health Insurance and Free Maternal Care, which the previous governments initiated to help buffer the poor and vulnerable from poverty, faced challenges. The country's total public debt increased from nearly GH ¢10 billion in 2008 to GH¢ 43.9 billion by the latter part of 2013. Although different factors could be attributed to the growth rate of public debt, the Single Spine Pay Policy (SSPP)[36] may have significantly contributed to the increase in the government's wage bill.

A recent Akalaare (2018) study revealed that the public sector wage bill continues to threaten government expenditure. The study notes that wages and salaries for public sector employees use up nearly half of all taxes collected yearly. According to the author, the government expenditure on wages and salaries for public sector workers alone in 2017 amounted to GH ¢14.4 billion. The amount is from the GH ¢32.2 billion tax revenue collected over the same year. This is equal to almost 45% of the year's total taxes[37]. The author's analysis of fiscal data

[36] With usually low salaries and wages in the public sector, the Government of Ghana introduced the Single Spine Salary Structure (SSSS) which was a major constituent of the Single Spine Pay Policy (SSPP). Launched in 2010, the pay policy reform was implemented to regulate the payment of public service workers. It was aimed to promote equity within the public sector by ensuring that public sector workers received equal salaries for equal work done (Larbi 2015).

[37] This presupposes that for every one cedi collected in tax revenues in the year the public sector pay consumed nearly 45 pesewas. Therefore, only about 55 pesewas were left for, among others, debt servicing, statutory payments, capital expenditure and social intervention expenses. From GH¢6.7 billion in 2012, the government's expenditure on public sector wages and salaries increased to GH¢14.4 billion in 2017. This is currently estimated

gathered from the Ghana Ministry of Finance further showed strong double-digit growth in the wage bill on an annual basis. This is compared to total economic output, measured by gross domestic product (GDP), which has experienced a single digit over the previous six years. Contrary to the annual GDP growth, which averaged 6.1 % between 2012 and 2017, the data indicated that the annual growth in the wage bill averaged 16.7% within the six-year period. This is more than twice the rate of GDP growth.

Meanwhile, Table 2.2 shows some of Ghana’s Economic Indicators (EIs) from 2011 to 2016. In the five years immediately preceding the fiscal year 2016/17, there had been a downward trend in the country’s annual GDP growth rates. The figures obtained from the World Development Indicators show that the GDP growth rates had been reduced by an average of about 2.7 per cent annually despite the increases in the GDP in both 2012 and 2013 financial years with $42.0 billion and $47.8 billion, respectively. Conceivably, a poor growth rate, according to Spence (2014), suggests a drop in aggregate demand[38] because of a continuous increase in the unemployment rate coupled with low incomes, prevalent occurrences experienced in the economy of Ghana. Despite enjoying nearly three decades of political stability, perceived corruption and economic uncertainty have impacted the country's business landscape. As a result, many businesses have hesitated to invest in capacity expansion, negatively affecting confidence levels. This situation can have unfavourable effects on regulation, public investment, the delivery of services, and growth (Ibid). In addition, Ghana, which continues to grapple with both high interest and inflation rates, faces the challenge of reducing the cost of borrowing to boost spending and investment. This situation, coupled with

to increase to a record high of GH¢16.8 billion at the end of 2018. Furthermore, the study notes that the growth in the wage bill is often evident in election years compared to any other year (Akalaare 2018).

[38] Aggregate demand includes the total amount of goods and services consumers want at an established overall price level and within a given period of time (Hanks 2017).

a decrease in the disposable income of consumers, put considerable pressure on the government to find strategies to mitigate the pangs of hardship.

Amidst the above, the World Bank (2017) notes that Ghana's economic performance over 2016 consists of mixed elements in its recent economic developments report. The country achieved steady progress on fiscal consolidation in reducing the fiscal deficit, down from 10.2% of GDP in 2014 to 6.3% in 2015. Although, the aim to further cut it down to the 2016 target of 5.3% of GDP was missed by a huge margin, with the deficit swelling to 9%. Nonetheless, the report indicates that the GDP growth of 3.6% in 2016 was somewhat better than the forecast of 3.3 %. In addition, inflation, which was high at 17.5% at the beginning of 2016, was reduced to 15.4% and further to 13.3 % in December 2016 and January 2017, respectively. These results were closer to the Bank of Ghana's 6%–10% target range.

Moreover, Ghana improved its external balance in 2016 despite weak commodity prices. Perhaps this reported achievement comes from the increase in exports and the reduction in imports attained over the period. Similarly, the current account deficit, which was 7.6% of GDP in 2015, was reduced to 6.4% of GDP in 2016, and gross foreign reserves, which was $4.4 billion in 2015, increased to $4.9 billion, equivalent to 2.8 months of imports at the end of 2016.

Table 2.2: Ghana Economic Indicators: 2011 – 2016

	2011	**2012**	**2013**	**2014**	**2015**	**2016**
GDP (current US$ in billions)	39.6	42.0	47.8	38.6	37.5	42.7
GDP growth (annual %)	14.0	9.3	7.3	4.0	3.9	3.6
Inflation, consumer prices (annual %)	8.7	9.2	11.6	15.5	17.1	17.5
Agriculture, value added (% of GDP)	26.0	23.6	23.2	22.4	21.0	19.6

Domestic credit provided by the financial sector (% of GDP)	27.5	31.3	34.9	38.2	35.4	.
Exports of goods and services (% of GDP)	36.9	40.4	34.2	39.5	43.9	40.7
Gross capital formation (% of GDP)	26.4	31.8	27.7	27.1	24.6	22.8
Imports of goods and services (% of GDP)	49.4	52.8	47.5	48.9	55.4	47.9
Industry, value added (% of GDP)	26.2	28.9	28.7	27.7	27.6	28.2
Services, etc., value added (% of GDP)	47.7	47.5	48.1	49.9	51.4	52.2

Source: World Development Indicators

Generally, uninterrupted growth was characterised by a significant structural transformation of the economy (Fosu and Aryeetey 2008). Nevertheless, since independence, the whole historical form of the Ghanaian economy shows barely any structural changes (Killick, 2000; Round and Powell, 2000). Until recent times, whereas contributions from service have hardly improved, there was a slight shift from agriculture towards industry during the 1960s until the early 2000s, as shown in Table 2.3. Worthy of attention, however, is reducing the industrial component to about 10 per cent during the economic reduction programme in the early 1980s. This is equivalent to half of its value in the 1960s. Nonetheless, as Table 2.3 shows, by the 2000s, there had been an increase twice as large to 25 per cent. Perhaps one may postulate that the reforms might have successfully overturned the course of de-industrialisation.

Also, the data reveal that although much of the industrial growth could be ascribed to non-manufacturing components such as electricity and water, mining and quarrying and construction. The overall industry increased by an average of 4.3 per cent annually from 1986 to 2003. The manufacturing growth was nearly 1.4 per cent annually over the same period (Table 2.3B). However, according to the World Bank's World Development Indicators (2005), the portion of manufacturing in value-added GDP rose from 3.9 per cent in 1983 to 8.5 per cent in 2003. Therefore, the significance of manufacturing appreciated after the reforms, although insufficient to indicate a fundamental structural change since independence.

Table 2.3: Trends in the Structure of the Ghanaian Economy: 1960s- 2016

Sectoral Distribution of Real GDP, Period Averages (%)

	1965	1966-70	1971-75	1976-80	1981-85	1986-90	1991-95	1996-2000	2001-03	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Agriculture (% of GDP)	43.5	43.5	47.7	57.1	52.9	48.4	40.8	36.7	35.9	31.1	29.7	31.7	32.9	30.8	26.0	23.6	23.2	22.4	23.0	19.6
Industry (% of GDP)	18.6	19.3	18.7	14.2	9.9	16.7	21.7	25.1	24.8	21.3	21.2	20.9	19.7	19.8	26.2	28.9	28.4	27.7	27.6	28.2
Services, etc., (% of GDP)	37.9	37.2	33.5	28.7	37.3	34.9	37.6	38.3	39.3	47.6	49.0	47.4	47.4	49.4	47.7	47.5	48.1	49.9	51.4	52.2

1. **Growth rates of Industry and Manufacturing (annual %)**

	1966-70	1971-75	1976-80	1981-85	1986-90	1991-95	1996-2000	2001-03
Industry	5.3	1.9	-4.0	-3.7	7.2	1.0	4.8	3.9
Manufacturing	9.8	2.4	-4.6	-2.7	6.5	-7.4	5.0	1.6

2. **Manufacturing exports (% merchandise exports)**

1961-65	1966-70	1971-75	1976-80	1981-85	1986-90	1991-95	1996-2000	2001-2003
1.0	0.6	1.6	1.3	0.7	--	--	14.7	--

Source: Fosu and Aryeetey 2008 & Word Bank 2018.

2.3 The Persistent Depreciation of the Ghana Cedi

The persistent fiscal and monetary indiscipline cost adversely impacted the economy when successive governments had an excess money supply with a corresponding superfluous expenditure since independence. This could be observed regarding the impact on inflation and economic growth. However, its effect on the exchange rate of the Cedi over the years has been the most concern. The Cedi has continued to depreciate under different governments. At independence, Ghana, as part of the West African Currency Board, used the British Pounds, shillings and pence. The exchange rate was the equivalent of 73 pesewas to the US dollar. However, Dr. Kwame Nkrumah introduced the Cedi with an exchange rate of ¢1.04 per a dollar in 1965. By October 2013, the US dollar was trading at GH ¢2.2[39] (¢22,000). In 2018, the cedi exchange rate to the dollar was nearly GH ¢5.00. In an extremely import-dependent economy, any depreciation in the currency will eventually increase the hardships for Ghanaians as the cost of living increases.

A recent World Bank report prepared by Dilek et al. (2017) on the update of the Ghana economy indicates that the country missed its 2016 fiscal target by a wide margin, which moves the progress made in fiscal consolidation in 2015 in the opposite direction. The fiscal deficit increased from 6.3 per cent of GDP in 2015 to almost 8.7 per cent in 2016, which was considerably higher than the target of 5.3 per cent. The fiscal slippage resulted from a decline

[39] The cedi, Ghana's official currency, was introduced on July 19, 1965. The value of the cedi depreciated since its introduction. As a result of the low values of the notes and coins, large quantities had to be printed and minted to meet the local demands. This increased the overhead cost for Bank of Ghana. On 1 July 2007. The Ghana Cedi was introduced, replacing the old currency at a rate of 1 Ghana Cedi = 10,000 Cedis. One Ghana Cedi is divided into 100 Ghana Pesewas, with an initial exchange rate to the US Dollar of 1:1. The redenomination exercise was introduced to curb the huge expenses, difficulty in software and accounting procedure in the old Cedi. It was also initiated to increase security, portability and time saving (Amoako-Agyeman and Mintah 2014).

in revenue and excessive spending before and during the December 2016 elections. According to the authors, Ghana's debt situation worsened amidst significant exchange rate risks because of its high external debt (40.1% of GDP) and liquidity and rollover risks from its high short-term debt (11.9% of GDP). These extra fiscal liabilities were built up as the government was still dealing with a huge stock of financial deficit in the state-owned energy sector. The country's public debt stock rose to US$29.2 billion, more than 73 per cent of the GDP in 2016. Meanwhile, an additional GH ¢5.1 billion (3% of GDP) was accrued in 2016, increasing the stock of domestic arrears to nearly GH ¢7 billion, which is about 4% of GDP.

In 2017, to address some of the challenges, the newly elected administration reported a budget that seeks to achieve a steady fiscal consolidation and an acute expenditure adjustment over the coming months. The budget targeted 6.5% of GDP for the fiscal year and is backed by a revenue increase, including revenue from the oil sector. The increase in the tax revenue was expected to come from better tax compliance, a decline in import exemptions and a largely improved economic activity. The report indicated a positive medium-term growth outlook because of the expected production and oil price increases. The growth in the service sector was predicted to continue to be healthy, bolstered by a better and more stable power supply. However, the planned reduction in government consumption decreased capital spending under the designed fiscal consolidation, and weakness in cocoa prices could hold back the non-oil sector growth.

Conversely, the medium-term growth rate was forecasted to remain around 7%. Be it as it may, the county's economic prospects relied upon whether the new government could rebuild fiscal discipline and regain investor confidence. There would be a need for improved fiscal discipline and transparency to achieve macroeconomic stability, debt management and market credibility. Although the report gave a positive medium-term growth outlook, a complicated external environment may make the stabilisation process difficult. Ghana’s medium-term growth projections are still subject to external risks, including a further weakening of export commodity prices. The current unpleasant terms-of-trade experiences have extended the country’s macroeconomic vulnerabilities. They have also highlighted the need to put together fiscal buffers and encourage economic diversification to boost the economy’s resilience. This would help to progress terms-of-trade shocks and help to alleviate the negative impact of an anticipated decline in oil production after 2021. According to the World Bank’s Doing Business Report and the World Economic Forum’s Global Competitiveness Index (GCI), Ghana is one of the regional leaders in overall Doing Business rankings. Still, it is the business environment, and competitiveness falls short of its potential. Perhaps this is because of its inability to sustain reforms.

2.4 Summary of Poverty Profile in Ghana

This section looks at the analysis of the living conditions of Ghanaian households and the poverty profile based on the seventh and sixth rounds of the Ghana Living Standards Survey (GLSS7 and GLSS6)[40] conducted in 2017 and 2013/2014, respectively. The data from GLSS6 continues to hold relevance for the study, despite the completion of the latest survey (GLSS7), particularly concerning the poverty profile and the households’ living conditions in Ghana.

A summary of the study conducted by the Ghana Statistical Service (GSS), which is graphically presented in Figures 2.2 and 2.3, indicates that about a quarter of Ghanaians are low income or

[40] The Ghana Living Standards Surveys (GLSS7 & GLSS6) are among the series of household surveys that have been conducted by the Ghana Statistical Service (GSS) since 1987 to generate data for the measurement of the well-being of the Ghanaian population. Results from the previous rounds of the survey have provided a wealth of information for understanding living conditions in the country, and for planning and monitoring the impact of developmental policies and programmes on the lives of the people.

poor, while less than a tenth of the population[41] is in extreme poverty[42]. Although the extreme poverty level is relatively low, the bulk is concentrated in Rural Savannah[43], with more than a quarter of the people being extremely poor. Overall, the dynamics of poverty indicators in Ghana over the 7-year period (2005 to 2102/13) indicate that poverty is still a rural phenomenon (IOM 2014). This is perhaps due to the low economic activity in these regions. Thus, reducing rural poverty may be a panacea to Ghana's poverty and achieve the desired levels for Ghana as a typical middle-income country. There is much variability in poverty incidence by the region. Whereas half of the ten regions[44] (Greater Accra, Western, Central, Eastern, and Ashanti) have their rates of poverty incidence lower than the national average of 24.2 per cent, the rates of the remaining half (Brong Ahafo, Northern, Upper East, Upper West, and Volta) are higher than the national average. Though most regions have shown reduced poverty incidence rates, the pattern of poverty by region has remained the same (GSS, 2014). Given the importance of implementing programmes to attain the Sustainable Development Goals (SDGs) as a lower middle-income country, successive governments have initiated a series of social protection interventions to alleviate poverty among the vulnerable population in Ghana. Interventions include the Livelihood Empowerment Against Poverty (LEAP), capitation grant, school feeding programme, free distribution of school uniforms, free exercise

[41] More than 2.2 million Ghanaians are extremely poor (based on 2010 Population & Housing Census projections). Sasu (2024) provided a slight update to this data. The author notes that around 2.99 million people in Ghana lived in extreme poverty in 2023, with the majority residing in rural areas. Specifically, about 2.8 million individuals lived on less than 1.90 U.S. dollars a day in rural regions, while 214,000 extremely poor people were located in urban areas.

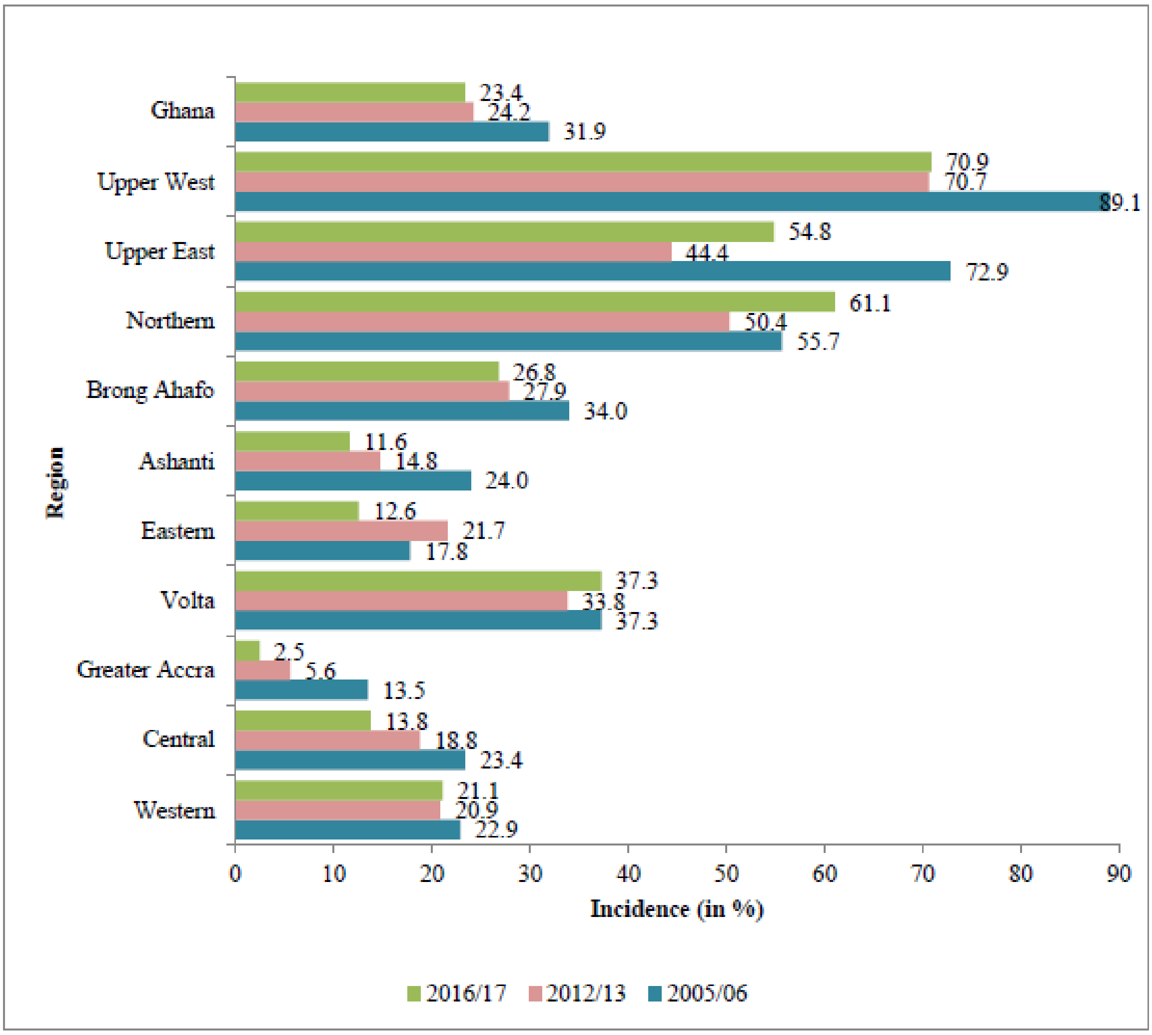
[42] The extreme poverty and the absolute poverty lines are calculated to be 792.05 Ghana cedis and 1,314.00 Ghana cedis, respectively, per equivalent adult per year in the January 2013 prices. In dollar terms in the same year, the absolute poverty line was equivalent to about \$1.83 per day (\$1.10 for the extreme poverty line). The absolute poverty line indicates the minimum living standard in Ghana while the extreme poverty line indicates that even if a household spends their entire budget on food, they still would not meet the minimum calorie requirement (GSS 2014)

[43] Rural areas surrounding the northern part of Ghana

[44] As at 2020, (before the start of this study) there are 16 administrative regions in Ghana.

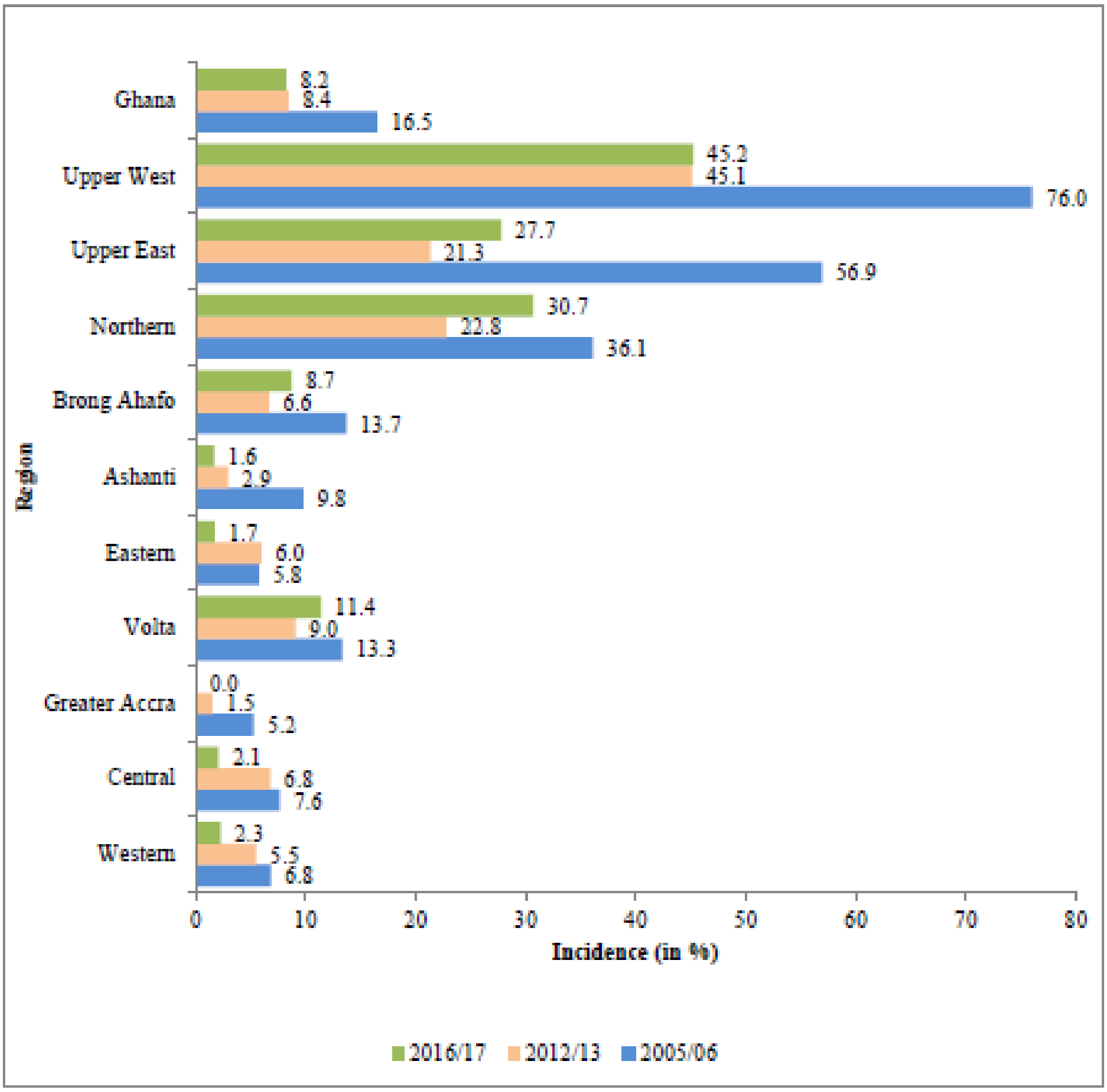
books and textbooks and elimination of schools under trees. Despite the continuous growth in the economy of Ghana, it remains to be seen whether these growths have benefited all sections of society, including the poorest. Therefore, like other nations, Ghana will not hesitate to examine any poverty reduction proposal like microfinance to mitigate the pangs of poverty.

Figure 2.2: Poverty Incidence by Region (Poverty line=GH¢1,314)



Source: GLSS 7 (2024)

Figure 2.3: Extreme Poverty Incidence by Region (Poverty line=GH¢792.05)



Source: GLSS 7 (2024)

2.5 History and Evolution of Microfinance in Ghana

The concept of microfinance is not new in Ghana. It has been the usual practice for an individual to save and take small loans from another individual or group with the idea of self-help to engage in small retail business or farming projects (BOG 2007). According to Asiama and Osei (2007), there is a suggestion that in 1955, the Canadian Catholic missionaries who had then settled in Northern Ghana established the first credit union in Africa. Prior to that, 'susu', one of Ghana's current informal microfinance schemes, is believed to have been initiated in Nigeria and spread to Ghana from the 1900s (BOG 2007). The Ghana Ministry of Finance (MOF) asserts that microfinance has experienced four different stages of development in Ghana since its inception, as has the rest of the world. The ministry outlines the phases as follows:

Stage One: This phase started in 1950 and involved the supply of subsidised credit by the governments. This emanates from the postulation that the critical obstacle to eliminating poverty has been the lack of money.

Stage Two: The period covers the 1960s and 1970s principally involved using NGOs to provide microcredit to the poor. The conceptualisation of financial self-sufficiency and sustainability in microfinance was still considered not relevant.

Stage Three: This phase commenced the process of formal status being given to the Microfinance Institutions (MFIs) in the early 1990s

Stage Four: This period in the mid-1990s began the integration of microfinance and its institutions into the mainstream of the financial sector. The phase also witnessed the commercialisation of the MFIs.

Consequently, the microfinance sector in Ghana has continued to develop and flourish due to the country's constant financial sector policies and programmes, which allowed the formation of various types of financial institutions (Adu et al., 2014). Some of these policies and programmes, according to the authors, include the following:

A. Provision of subsidised credits by Governments started in the 1950s when it was assumed that the lack of money was the ultimate hindrance to eliminating poverty.

B. Establishment of the Agricultural Development Bank in 1965 specifically to address the financial needs of the fisheries and agricultural sector.

C. Establishment of Rural and Community Banks (RCBs) and the introduction of regulations such as commercial banks are required to set aside 20% of the total portfolio. The policy was required to promote lending to agriculture and small-scale industries in the 1970s and early 1980s.

D. Shifting from a restrictive financial sector regime to a liberalised regime in 1986.

E. Promulgation of PNDC Law 328 in 1991 to allow the establishment of different categories of non-bank financial institutions. The categories include savings and loan companies and credit unions (Aryeetey 1996), cited in Adu et al. (2014).

In Ghana, microfinance has been a sub-sector of the financial sector, consisting of most financial institutions that use a particular financial method to reach the poor. Over the years, the microfinance sub-sector has been argued to be developing well due to the various financial sector policies instituted by different governments. Currently, the Ministry of Finance and Economic Planning (MOFEP) has grouped the microfinance institutions in Ghana into four different categories:

1. Formal suppliers such as savings and loans companies, rural and community banks, as well as some development and commercial banks;
2. Semi-formal suppliers such as credit unions, non-governmental financial organisations (FNGOs), and cooperatives;
3. Informal suppliers such as 'susu' collectors and clubs, rotating and accumulating savings and credit associations (ROSCAs and ASCAs), traders, moneylenders and other individuals; and
4. Public sector programmes that have developed financial and non-financial services for their clients (MOFEP 2017).

However, the financial intermediation and credit activities come under the regulatory jurisdiction of the Bank of Ghana (BoG), the Central Bank. The regulatory framework under the Banking Law (1989) and the Non-Bank Financial Institutions (NBFI) Law (1993) hold a tiered framework of licensed financial intermediaries and financial regulation (Gallardo, 2002). For structure and key stakeholders in microfinance in Ghana, see Table 2.4. This section of the study draws heavily from the work of Steel and Andah (2003) and Gallardo (2002), who have written extensively on the regulatory framework related to rural microfinance in Ghana.

Table 2.4: Structure and Key Stakeholders of Microfinance in Ghana

The structure and key microfinance stakeholders in Ghana consist of the following: **Microfinance Institutions, including** a) The Rural and Community Banks b) Savings and Loans Companies c) Financial NGOs d) Primary Societies of CUA e) Susu Collectors Association of GCSCA f) Development and commercial banks with microfinance programmes and linkages g) Micro-insurance and micro-leasing services. **Microfinance Apex Bodies, namely:** 1. Association of Rural Banks (ARB) 2. ARB Apex Bank 3. Association of Financial NGOs (ASSFIN) 4. Ghana Cooperative Credit Unions Association (CUA) 5. Ghana Cooperative Susu Collectors Association (GCSCA) **End Users** 1. Economically active poor and at-risk who are clients of microfinance products and services. **Technical Service Providers** a. Business Development Service Providers to MFIs and their clients. **Supporting Institutions** i) Microfinance and Small Loans Centre (MASLOC); ii) The Ghana Microfinance Institutions Network (GHAMFIN); iii) Development partners and international non-governmental organisations iv) Universities, training and research institutions. **Government Institutions** i) Ministry of Finance and Economic Planning ii) Ministries, Departments, Agencies (MDAs) and Metropolitan, Municipal and District Assemblies (MMDAs) iii) Bank of Ghana

Source: Asiama and Osei (2007)

2.5.1 The Evolution of Microfinance in Ghana

For thirty years, the growth of microfinance practices has positively affected the rise of financial inclusion in Africa, particularly in Ghana (Popovic & Steel, 2016; WHO, 2013). In addition, the total number of MFIs customers has grown numerically: The number of total clients of MFIs increased by 2.4 million in 2006 from the previous 1.3 million in 2001, and as of the end of 2013, the number of clients has gone up to approximately 8 million from 5.5 million in 2010[45]. This is against the backdrop that only 35% of the Ghanaian adult population (+15) had an account in a financial institution, according to the 2014 edition of the Global Findex Database[46] (Trombetta et al. 2017).

There is a diversity of different kinds of institutions involved in microfinance in Ghana – most of them savings-based – including non-governmental financial organisations (FNGOs), savings and loans companies (S&Ls), rural and community banks (RCBs), mobile savings collectors (also known as 'susu' collectors) and credit unions (CUs). The different variety and the lower barriers to entry created the opportunity for an extended outreach of microfinance in the various market segments in Ghana. These market niches include the small rural farms that rely mainly on family labour and the urban small businesses and traders. In addition, the government's policies empowered banks and other organisations to engage in commercial operations without official intervention (Trombetta et al., 2017). According to the authors, reform measures instituted include eliminating administrative credit allocation, liberalising interest rates and strengthening the role of the Central Bank in regulating and supervising all financial institutions by ensuring banks comply with rules and regulations and that they operate safely and soundly. Interest rate liberalisation was achieved when interest rates were decided by the market rather than administrative forces, usually through the restriction of lending and deposit rates set below the market equilibrium levels. However, despite the extent of reaching out to many clients in Ghana, the gains in the microfinance sector were interrupted in the concluding part of the

[45] Ghana Microfinance Institutions Network (GHAMFIN), 'Performance Monitoring and Benchmarking of Microfinance Institutions in Ghana: Trends in the Industry during the 2000s (2006-12),' Accra, 2014. In 2012, the total population over the age of 18 (minimum to open a bank account) is predicted at 14 million. Data on total clients are perhaps, exaggerated to the extent that people have multiple accounts, but underestimate the number of people reached through group accounts.

[46] Launched in 2011 by the World Bank, the Global Financial Inclusion database offers comparable indicators displaying how people around the world borrow, make payments, save and manage risk.

2000s. The reason for this was perhaps the proliferation of many profit-oriented organisations, which amassed resources - investments and savings, from different sources, including the public and, in return, lent out these funds at comparatively high interest rates. These commercial MFIs could serve rural, peri-urban and urban communities[47] , and the rates they charged were, in some instances, more than double the rate charged by the industry rate[48]. These microfinance organisations frequently operated with “susu”, “financial services”, or “capital” attached to their name and took savings from the public even when they had not been licenced to do so by the BoG. It appears that perhaps these institutions did not have enough capital to meet the statutory minimum requirements as dictated by the BoG, and this, coupled with a number of reasons,[49] led to many clients losing their savings because of bankruptcy.

The microfinance sector started operating and gained recognition under new, concrete policies and regulations. The growing occurrences of corruption, insolvency and reported fraud within the sector compelled the regulators and policy-makers[50] to initiate the need for stringent regulations to clean the industry and protect the final consumers. In 2011, the BoG issued *the Guidelines for Microfinance Institutions*. These Guidelines summarily require all types of microfinance organisations to be grouped under the new categories of Microfinance Companies (MFCs) and Money Lenders for effective supervisory control. Subsequently, the MFIs maintained steady growth in the number of deposits and loans and the number of clients as time progressed. Whereas MFIs' deposits grew at 21 per cent and loans at 26 per cent in real

[47] Over the 2000s there was a big increase on the number of MFIs that led to an increase in the number of clients of microfinance institutions, growing from 1.3 million in 2001, through 3.5 million in 2006 and over 6.5 million in 2012 (Performance Monitoring and Benchmarking of Microfinance Institutions in Ghana, Trends in the industry during the 2000´s. GHAMFIN 2014).

[48] Organisations in the microfinance sector charged a typical 8-10 per cent per month (Popovic and Steel 2016)

[49] Reasons for failure to pay back clients’ savings come from multiple of factors which include fraud, absence of proper regulations, lack sufficient capacity, transparency and accountability to act as responsible financial intermediaries, poor management and non-payment of loans (Trombetta et al. 2017; Popovic and Steel 2016).

[50] The Bank of Ghana and the Ghana Microfinance Institutions Network (GHAMFIN)

terms, total clients grew at an annual compound rate of 16 per cent (GHAMFIN 2015). In terms of structure, the microfinance sector in Ghana has seen changes over time as new subsector entrants have appeared and grown in the market, particularly the Savings and Loans Companies (S&Ls)[51].

Notwithstanding, the Rural and Community Banks (RCBs) still have a major stake in client outreach. Perhaps the emergence of new Microfinance Companies (MFCs) onto the market during this period is because of the promulgation of the new regulations. Unlike the previous, these required adequate company data to be collected and stored when information was lacking. Essentially, the institution of microfinance products and services central to the RCBs' activities ushered in the growth outreach in the 2000s. This was made possible because of the high percentage of the Ghanaian population involved in some form of formal banking. The data is compared to the other countries in the sub-Saharan region, except those from southern Africa.

Nevertheless, EPRC (2013) reports that relative to 44 per cent in Ghana, Kenya and Uganda particularly have lower financial exclusion rates of 33 and 30 per cent, respectively. The author asserts that the emergence of an informal financial facility (mobile money[52]) in East Africa has been the major force in reducing financial exclusion. Therefore, it could be postulated that the difference between East Africa and Ghana has been using mobile money in the former[53] to propel financial inclusion. Regarding outreach, the RCBs represent the biggest share of the industry, with over 600 branches and agencies. Although the S&Ls have grown in size and numbers recently, which has driven them into a lead in lending services, the RCBs have a share

[51] Sinapi Aba, which was the largest Financial Non-Financial Organisation (FNGO), for instance, was converted into and authorised to carry on the business as an S&L on the 28th March 2013. The S&Ls controlled the largest loan portfolio in the sector in 2013. (http://www.sinapiaba.com/index.php/about-us/corporate-info.html)

[52] Mobile money transfer (remittance) — a peer-to-peer application making use of a mobile phone to send money to family or friends, primarily across international borders (Ernst & Young 2009).

[53] The latest FinScope survey shows mobile money has accounted for a reduction of more than half of financial exclusion in Uganda (EPRC 2013).

of over 59 per cent of microfinance clients and control 50 per cent of the deposits. Despite the growth in the number of MFCs' clients that was similar to the credit unions' in 2012, the number fell to about half in 2013. It stayed significantly smaller with regard to savings and loan portfolios. Therefore, "the risks they pose have to do with the volatility and potential spillover of reputational risks and reduced consumer confidence that they have introduced, rather than a significant systemic risk" (Popovic and Steel 2016:4-5).

2.5.2 Challenges of Implementing the Microfinance Regulations

As discussed earlier in the section, in 2011, the BoG issued *the Guidelines for Microfinance Institutions* to curb the creation of businesses that were not licenced as financial institutions yet were taking savings and giving out loans. The regulations cover all types of microfinance providers, including Money Lenders (individuals and companies) and Microfinance Companies. These are in addition to the S&Ls and RCBs, previously licenced as the FNGOs, CUs, Susu collectors and other financial service providers. The guidelines outline which business form MFIs should have and their minimum capital requirement. Others include the principles of branch expansion, permissible activities and prudential oversight or reporting requirements.

Based on a study by CDC Consult in 2010, which GHAMFIN authorised, the Guidelines ascribe to four tiers in the categorisation of all activities in the microfinance sub-sector:

5 Tier 1: This covers the activities undertaken by Rural and Community Banks, Finance Houses and Savings and Loans Companies. These institutions are already regulated under the Banking Act 2004 (Act 673)

6 Tier 2: These are activities undertaken by i). 'Susu' companies and other financial service providers, including Financial Non-Governmental Organizations (FNGOs), which are deposit-taking and profit-making. ii). The Ghana Cooperative Credit Unions Association

then controlled Credit Unions. Still, they are to be regulated separately under a new Legislative Instrument: The Non-Bank Financial Institutions (NBFI) Act 2008, which envisages supervision through an independent Board under BoG.

7 Tier 3: These are activities undertaken by Non-Deposit-taking MFIs. They are i). Incorporated moneylenders ii). Financial Non-Governmental Organisations (FNGOs). These MFIs, supervised by the BoG, are not allowed to mobilise deposits from the public. However, the Guidelines required FNGOs desiring to take deposits to convert from companies limited by guarantee to companies limited by shares. Although, in practice, even before a conversion takes place to mobilise funds, some request funds from customers to be used as collateral.

8 Tier 4: This includes activities undertaken by i). 'Susu' collectors, whether or not previously registered with the Ghana Cooperative Susu Collectors Association (GCSCA) and ii). Individual moneylenders. BoG does not directly supervise individuals and entities engaged in the above activities. However, they are encouraged to join associations to further their objectives and deal with regulators and other stakeholders (Bank of Ghana, 2011).

The tiered structure epitomises a realistic cataloguing and ranking in order of importance, the different sorts of the organisation by considering both the size and risk of financial stability. This is in line with similar frameworks adopted in other countries that have embraced special measures to streamline the activities of MFIs. According to Popovic and Steel 2016, as many as 700 new applications for licensing were received in 2012 by the BoG. Microfinance Companies' applications formed the bulk, while a few were received from FNGOs. This was due to, perhaps, many of the FNGOs being undecided about either remaining as FNGOs or registering again as S&Ls to mobilise savings. While some of the institutions were only operating at the small-scale level and were confined to a small area to be affected, the other available alternative that might be worth considering was re-register as companies limited by shares to become MFCs.

Prior to the introduction and the subsequent implementation of the Guidelines, it was not easy to obtain information on institutions, particularly MFCs and FNGOs, for licensing decisions to be approved. The difficulty lies in the incapability of these institutions to have any computerised management information systems. This made them unable to produce the needed reports for registration, and when this was possible, not many of them could produce the required audited financial documentation. Therefore, the BoG took a flexible approach to issuing provisional licences. This was to ensure that a maximum number of existing institutions are registered into the system and then attempt to improve reporting and regularise them. In addition, BoG did not want to drive those who faced difficulties meeting the criteria (reporting and minimum capital requirements) underground. A total of 579 licences were issued as MFIs by the BoG as of December 2015, an increase of 313.6 per cent from 2012[54].

Moreover, despite the good meaning of implementing the new structures and regulations, the guidelines faced more challenges. These were identified particularly at its implementation stage. Many existing institutions already engaged in microfinance activities were apprehensive of the new guidelines. Some of these institutions were unprepared to follow the guidelines. Again, despite the liberal approach from the BoG during the process, there was a perception of an attempt to enforce the system to restrict new entry.

[54] The BoG issued 140 licences. The number sharply increased during 2013 and by the end 2014 the total number of Tiers 2 and 3 had reached 508 and as of December 2015 the total number of registrations had jumped to 579 (Popovic and Steel 2006)

The process of meeting the licensing criteria proved to be lethargic and difficult and began to have an adverse effect on the newly regulated subdivisions of the MFIs. For instance, due to the uncertainties and lack of proper publicity associated with the collapses of those who could not comply, the MFC subsector suffered a decline in deposits in 2013. This resulted in 128 licensing applications being denied as of April 2014. Most of those were unsuccessful in following through and providing the necessary credentials to be registered. This is against the backdrop that the opportunity was created for institutions already in existence to apply with 'low' minimum capital requirements. Essentially, the BoG increased the minimum capital requirement fivefold to discourage a sudden surge in small new applications from flooding the system. For instance, Tier 2 and Tier 3 capital requirements were increased from GHS100,000 to 500,000 and from GHS60,000 to 300,000, respectively. The purpose of the increase was to limit future applications, encourage mergers and provide an adequate cushion of capital to fortify operations[55]. Even though the applications already in the process were not instantly demanded of the increases, some of them who were about to apply or have had their licences could not continue and had to drop out. The process of closure and collapse of MFCs, which was the unavoidable effect of the regulations, continued in 2015. Perhaps this was necessary to create a more orderly, thinner, well-regulated industry.

Furthermore, the process of cleaning the already existing system did not progress without difficulties. The complication resulted from BoG having no legal authority to close down the business - they can only deny them an operating licence. A complete closure would normally need a court order and police action. As an alternative, the BoG withdrew the licences of about

[55] There were a few mergers that occurred. Comparatively, new investors bought some MFCs, which had been licenced yet were struggling as a measure to evade the higher capital requirement for new applications.

70 MFIs that did not comply with the regulation[56]. Therefore, to fulfil their statutory responsibility, they made available to the public nearly 130 identified MFIs that were still operating without a licence. This was done to warn the public from doing business with unregulated MFIs. In partnership with the MFI associations, the BoG also introduced measures and engaged in public relations to improve the execution and information about the exercise. This increased the public confidence level, which is one of the main indicators in microfinance to assess the long-term success of the regulation. For instance, deposits in MFCs during 2014 initiated a positive recovery after a decline in 2013. The news about the then frequent collapse of MFIs somewhat began to die down with a move towards recovering funds from the closed institutions. While the then prevailing measures seemed to produce results, it was essential to be augmented by a carefully planned strategy to fully implement the MFI regulatory framework. This helped ease the hostile publicity and reaction over recent cases of loss of funds[57].

2.6 Conclusion

This chapter has provided an overview of the country's context by presenting some of Ghana's socioeconomic indicators, including the population, the economy, and the level and depth of poverty. A portion of the section also discusses the Ghana microfinance background. Generally, there are indications that both the depth and level of poverty have

[56] Bank of Ghana (BoG), 'Notice to Banks, Non-Bank Financial Institutions and the General Public: Unlicensed Microfinance Institutions,' Accra: BoG Notice No. BG/GOV/SEC/2015/04, 2015; Odonkor, Emmanuel, 'Bank of Ghana revokes preliminary approval of 70 prospective microfinance companies,' Ghana Business News, 5 January, 2016

[57] People in the Brong Ahafo region and the three Northern regions became victims to what was described as 'a grand financial conspiracy' in a modern day Ghana. Kyei, Ivan Innocent, 'DKM, God Is Love and BoG Mess, Alert Mahama' Modern Ghana, Jan 4, 2016

reduced over the past decade. Notwithstanding, the prevalence of poverty has continued to be high, particularly in Ghana’s five northern savannah regions. In the face of successive governments' different programmes and policies over the years, relatively minimal achievement has been recorded. Therefore, the microfinance concept is an idea that the government would embrace if it would improve the standards of living of particular low-income earners.

The current structure and different key stakeholders of microfinance in Ghana are shown in a table. Presently, the microfinance institutions in Ghana have been grouped into four categories: formal, semi-formal, informal and public sector programmes. The last on the list provides government-led packages that develop financial and non-financial services for their clients. The rest provide microfinance services to the poor and low-income earners by adopting different strategies. The activities in the microfinance sector have been tiered. Each of these operates under a defined role based on the guidelines issued by the BoG. The challenges encountered during the implementation of the regulations (Guidelines) were also highlighted. In relative terms, the RCBs and NGOs have been at the forefront of reaching the most needed participants within the microfinance sector. Their strategic locations in particular areas where poverty is high give them the upper hand regarding the depth of outreach.

Again, concerning the economic history, there were many indicators that Ghana was expected to significantly achieve in growth to improve the lives of its people after Ghana attained independence. However, the adopted socialistic means of development, coupled with the controls by the state, create not only major inefficiencies but also stifle growth and development.

From 1983 to the present day, the economic policies introduced by past governments have not worked as expected. Successive governments have reported growth figures annually, yet these figures have not corresponded with better livelihoods or been transformed into reducing economic challenges. Concerns have been raised about the quality of economic growth, principally regarding employment, inequality and general improvement in the livelihood of Ghanaians. Therefore, doubts have been raised about the trickle-down effects of growth and development. The areas that lack growth include growth sustainability, employment, and wealth creation, often characterised by the prevalence of poverty, predominantly in rural areas and the northern savannah regions of the country.

There have been calls to suggest that more is needed at the micro level to ensure that all the appropriate institutional reforms are in place. This will heighten the proper functioning of markets, the responsiveness of firms and households' economic agents, and improve the political environment supporting enduring developments in economic performance. Maintaining a comparatively high level of political stability during the reform period is concomitant with this development. Hopefully, this development will provide the essential framework for faster growth and reduce the country's poverty level.

The next chapter outlines the research strategy and methods utilized in the study. It covers the research methodology and includes a section that formulates the primary research questions and sub-questions. The chapter then discusses the methodological framework and provides an overview of the survey conducted in Ghana. This involves a detailed description of the selection and choice of indicators and variables used in designing the data collection questionnaire. Finally, it presents the techniques used for analysing the research data.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

The previous chapter reviewed the current and relevant state of the debate on microfinance and analysed related studies on less developing countries, focusing on Ghana. The review demonstrated a gap for a study to investigate the factors that may enhance or limit the effectiveness of microcredit. Therefore, this chapter aims to explain the methodology adopted to gather and analyse the data that may be used in resultant chapters to answer the research questions presented within the initial chapter. Furthermore, not only will the chapter develop the laid out methodology in chapter one, but it also aims to ensure that appropriate methodological and design strategies have been properly pursued to gather the information needed for the study analysis. Researchers have been exploring alternative research strategies to adopt. Creswell (2003) contends that embracing a general framework to provide guidance and direction for all facets of the study has turned out to be important. The provision of such a framework is presented in this chapter.

The chapter is divided into five sections. It begins with the research process that this study follows. It identifies and discusses the theoretical approaches for investigating microfinance in rural areas. Next is the presentation of the theoretical underpinnings that would help to navigate and tackle the research problems of the study. Afterwards, the section presents and analyses the methodological approach of the thesis. Also, the chapter gives a description and the rationale for the selection of data collection instruments used. This is discussed together with the sampling method used and aspects relating to data coding, data entry and reliability. Lastly, the section provides a brief account of the study area and the MFI (including their missions, programmes, outreach and key features) adopted for the study.

3.2 Formulation of Research Question and Sub-questions

It is quite obvious from the literature that there has not been an extensive study on the factors that enhance or limit the effectiveness of microcredit in reducing poverty in rural Ghana and how the prevailing microcredit provisions and their use in Ghana compare with conducive and non-conducive elements. Although the research questions have been provided in Chapter 1.3, it is only appropriate that they are formulated at this stage when the review of the relevant body of knowledge of microfinance has been explored and the plan to successfully achieve the aim is implemented. The subsequent research question below is presented:

What factors enhance or limit the impacts of microcredit to improve and better beneficiaries' living standards in Ghana?

The answer to the research question would be delivered through a number of sub-questions whose construction was informed by the analytical approach adopted by the thesis: Interpretive Approach (IA) and the thesis emphasis on context. The research question is chunked into two major questions and their matching sub-questions. The first key question seeks to determine if microcredit has an influence on recipients' standards of living as measured by household expenditure and overall economic well-being. The second major question investigates the use of microcredit key factors that enhance or otherwise the impact of microcredit on the living conditions of beneficiaries.

In order to achieve the above objectives and answer the research question, this study formulated the underlisted key questions sub-questions:

a. Does microcredit have an impact on the living standards of beneficiaries, as measured by household expenditure?
b. What is the impact of microcredit on the business performance of borrowers?
c. What is the impact of microcredit on the household expenditure of beneficiaries?

d. What factors affect the impact of microcredit on business turnover and the living standards of beneficiaries?
e. To what extent do household characteristics account for the success or failure of microcredit?
f. To what extent do borrowers' loan and business characteristics affect the outcomes of microcredit?

Based on a mixed method approach, which will be discussed later, the initial set of questions is answered by the use of the questionnaire and the secondary information obtained on the microfinance institution. The objective is to examine the contributory impact of each independent variable on household expenditure and business turnover. Empirical work includes a quantity element utilising descriptive data analyses and stepwise multiple regression analyses. This allows the researcher to evaluate which measures have increased after acquiring the microcredit. Answers to the second set of questions are based on empirical evidence of factors affecting the effectiveness of microcredit. The study uses a qualitative research approach to examine the factors that influence the effectiveness of microcredit on business and bettering low-income beneficiaries' living standards. The data sources used included the service users' questionnaires and the semi-structured interviews with the staff of the OISL at different local branches. The section provides details of how the research questions will be answered after they have been developed. It is followed by a discussion of the analysis methods employed in answering the questions raised.

3.3 Methodological approach

There is a variety of suitable techniques for conducting research. Several factors are considered for helping the selection of methodology to employ. According to Snape and Spencer (2003) and Creswell (2003), these factors may be obtained from the answers to the following questions: What are the aims and objectives of the study? What is the academic background of the researcher? What are the contextual characteristics of the study area? What is the researchers' view on the nature of the social world, and what can be known? (ontology) and what type of knowledge to be acquired and how can it be acquired? (epistemology). Research methodology inclines to be defined along the qualitative and quantitative divide. This is because researchers are typically enlisted, prepared, mingled and compensated along single strategies for social enquiry. This is in addition to one of the methods or the other being preferred by the supervisors and peers of researchers. Although this system is restrictive, according to Rao and Woolcock (2003), it makes certain intellectual coherence and quality control.

In this research, proponents of pragmatism suggest using all applicable methods to understand the different facets of a research problem (Creswell 2003). This employs a problem-centred, pluralistic and result-oriented approach. This strategy's appropriateness and interest come from prioritising the research objectives and using the best methodological techniques to obtain the objective irrespective of which side of the divide the method fits (Patton 1990; Creswell 2003). Concerting with this approach leads to what Patton (2002:257) calls a "paradigm of choices", where the researcher rationalises the choices about research procedures based on their ability to satisfy the research objectives. Expressing it differently means pragmatism considers that no single viewpoint but rather multiple realities can give a better picture.

Essentially, this approach prompted a recommendation of “contingency theory” for selection, “which accepts that quantitative, qualitative, and mixed research are all superior under different circumstances, and it is the researcher's task to examine the specific contingencies and make the decision about which research approach, or which combination of approaches, should be used in a specific study” (Johnson and Onwuegbuzie 2004:22-23). This suggests pragmatists apply mixed methods or methodological pluralism to appreciate social reality whenever necessary (Robson, 2002). Several authors make claims for consolidating qualitative and quantitative methodologies for varied reasons. Creswell (2007:28) advocates for methodological pragmatism and briefly outlines it along these lines: “it is not limited to a particular system of philosophy and reality; unrestricted choice of methods, techniques and procedures of research to meet needs and goals; the world is not seen as absolute unity; the truth is what works at the time and not based in dualism; research takes place in social, political, historical and other contexts and a belief in an independent external world”. Effectively, the pragmatism focuses on applying “multiple methods of data collection to best answer the research question, will employ multiple sources of data collection, will focus on the practical implications of the research, and will emphasise the importance of conducting research that best addresses the research problem” (ibid:28-29).

Considering the principal objectives of the study and to be consistent with the pragmatic approach, the mixed method approach is considered the most suitable (Rao and Woolcock, 2003). The qualitative method of research can generally be used to accomplish a proper understanding of a process[58]. A qualitative research method can achieve a comprehensive understanding of the social, political, cultural, economic, and institutional context within which

[58] A system by which a specific intervening act starts a progression of events that in the end prompts an observed impact

the intervention transpires (Bamberger, 2000). Rao and Woolcock (2003) note that understanding the process issues is equally important as the measure of the impact of an intervention. Employing mixed methods produces better results than employing individual qualitative or quantitative methods. The effects are mostly observed at design stages, data collection and analysis (Madley 1982). Quantitative research strategies, however, will be most fitting to determine levels and changes in an impact. It is also useful to make conclusions reached on the basis of evidence and reasoning from the observed statistical relations between the impacts and independent variables (Rao and Woolcock 2003). The mixed method approach has become widely used for development research. This results from the seeming imperfections in data collection or analytical methods and that predispositions characteristic in any strategy could conceivably be corrected by other strategies (Creswell 2003).

3.4 The Mixed Method Approach

The use of the mixed method in research has become indispensable to issues in social reality. Its applicable assimilation in social research has also been called into question (Creswell 2003; Bamberger 2000). This raises the subject of better analysis and understanding of mixed methods, particularly when and how both qualitative and quantitative methods can be combined. By way of illustration, should qualitative and quantitative research be conducted independently, and the results be compared? Some study prefers to adopt the mixed methods approach, taking cognisance of the variations between the two major approaches. They amalgamate and adopt the use of quantitative and qualitative methods in a single research work resting on the methodological basis and type of study (Bryman and Burgess 1999).

To address the integration of both methods, both Creswell (2003) and Rao and Woolcock (2003) acknowledged using three procedures. Whereas Creswell proposes concurrent, sequential and transformative procedures, Rao and Woolcock (2003) identify parallel, sequential and iterative. Creswell (2003) explains the concurrent method by means of integrating the use of quantitative and qualitative data to contribute an extensive analysis. In other words, both procedures are used at the same time. The method promotes the practice of combining both approaches in research to obtain insights that neither approach would produce on its own. It has the advantages of one strategy, possibly compensating for the disadvantages of the other, and vice versa.

Concerning sequential integration, the researcher starts with one procedure and then creates and develops the other, dependent on the discoveries from the first. The transformative procedure assumes the theoretical perspective by configuring both procedures in any concurrent, sequential or both. On the other hand, Rao and Woolcock (2003) explain the parallel approach research to be when researchers conduct the qualitative and quantitative research independently but compare the results at the analysis stage. The author's explanation of the sequential approach is consistent with Creswell's description, which suggests that one methodological procedure introduces and explains or illuminates the other.

Similar to the sequential is the iterative methodology. This involves returning to the field to clear up seeming differences and elucidate unanswered issues using alternative methodologies. In spite of the fact that these studies give a general thought of integrating research techniques, they do not reveal to the researcher how this combination ought to be done at the different periods of the research process. While this is conceivable, integrating research strategies at all stages of the research process is challenging.

Again, inasmuch as a number of authors, including McKim (2017), Creswell (2003), Creswell & Plano Clark (2007), Bamberger (2000); Dunning et al. (2008), and others advocate for the use of a mixed methods approach, it has to be mentioned that the technique comes at a cost. The approach tends to be complex and cumbersome, and if it is used extensively, it will require the recruitment of individuals with skills in both qualitative and quantitative approaches. This leads to such studies being costly with respect to talent, resources and time (Yeboah 2010). Moreover, Rao and Woolcok (2003) assert that the need for an extensive body of knowledge on how the various methods can be mixed and under which circumstances they can be adopted takes away the benefits and makes their use very challenging.

As a summary of the three approaches in practice, Table 3.1 recapitulates a brief and essential clarification of which kind of data is being explored by each method.

Table 3.1 Alternative approaches to research: Quantitative, Mixed, and Qualitative Methods

Qualitative Method	**Quantitative Method**	**Mixed Method**
Seeks to explore, explain and understand phenomena- What? Why? Research design has flexibility; Emerging methods. Open-ended questions Interview data, observation data, document data, and audiovisual data Text and image analysis Themes, patterns interpretation	Seeks to confirm a hypothesis about a phenomenon – how many Highly structured; Pre-determined Instrument-based questions Performance data, attitude data, observational data, and census data Statistical analysis Statistical interpretation	Both predetermined and emerging methods Both open-ended and close-ended questions. Multiple forms of data drawing on all possibilities Statistical and text analysis Across databases interpretation

Source: Adapted from Creswell (2014)

To explore the factors determining the effectiveness of microcredit in rural communities in Ghana, the study needs to uncover the link between the identified variables and the obtained results derived from the observations and gathered data from the fieldwork. In this study, the different phases of the research process incorporate the use of both qualitative and quantitative research methods. This includes the data collection, analysis and interpretation of findings.

This borrows the idea of the integration process. The results from the qualitative research work will be integrated into the plan of quantitative research. For instance, the results achieved in qualitative research can enhance the design of data collection instruments and the interpretation of empirical findings in a quantitative study. Similarly, the quantitative data augments the qualitative findings from interviews and questionnaires (Bamberger 2000; Robson 2002).

To increase the research's reliability and put it into a more comprehensive explanatory framework, the study will employ qualitative and quantitative findings as a method to harmonise each other (methodological triangulation[59]). For instance, qualitative data provide an essential understanding of the effect on poverty reduction rather than simply ascertaining the impact size (Rao and Woolcock 2003).

As indicated earlier, mixed methods research is the best option for this study because the quantitative or qualitative data alone will not sufficiently answer the research question. The study's quantitative component will test the microcredit intervention's effectiveness and explain the variability of the results. It will further help to generalise the qualitative findings. The data obtained with quantitative research questions are numerical and can be examined statistically. The data gathered can be generalized to the entire population and help make data-driven and comprehensive decisions. For instance, the quantitative research questions will help to identify the trends and causal relationships (in numerical terms) between the independent and dependent variables.

Similarly, the primary aim of the qualitative components will be to explore the issue of the effect of microcredit and generate the content of a questionnaire. It will also be used to study

[59] Methodological triangulation involves the use of more than one type of method to study a phenomenon. Its benefits may include offering confirmation of findings, more comprehensive data, increased validity and improved understanding of studied phenomena (Bekhet and Zauszniewski, 2012)

the range of aspects of microfinance, how it works, and explain the relationship between variables to assess their effectiveness. This will be achieved through the study's survey questionnaire and interviews.

In spite of the complexity of using mixed methods for this study, which will require extra resources, such as time and money, the technique has benefits. The key benefits include combining quantitative and qualitative techniques to help compensate for the shortcomings of each method. That is to say that the technique addresses the different aspects of the research question so that the study becomes more comprehensive. It increases the robustness of results because the findings can be strengthened through triangulation – the cross-validation achieved when different kinds and data sources converge and are found congruent (Kaplan and Duchon, 1988). Therefore, it can provide stronger evidence and more confidence in the research findings.

3.4.1 The Process of Quantitative Data Analysis

Quantitative research methods are fundamentally concerned with gathering and evaluating structured data that may be represented numerically. It entails applying computational and statistical techniques that centre on the statistical, mathematical, or numerical analysis of datasets. Creating precise and reliable measurements that enable statistical analysis is one of the main objectives of using the technique. The research technique is particularly good at addressing the "what" or "how" of a particular issue since it concentrates on data that can be quantified. (Goertzen, 2017; Matthews and Ross 2015; Creswell, 2007). To fill in the knowledge gaps mentioned earlier, the researcher will use qualitative studies like interviews, questionnaires and open-ended survey questions to achieve effectiveness and efficiency.

This study uses the regression analysis method to examine the relationships between microcredit factors and key economic outcomes, such as household expenditure and business turnover. Regression analysis allows the study to measure the impact of independent variables, including loan cycle, total loans, working capital, business size and interest amount on these outcomes. By using this statistical method, the study can identify significant predictors and assess their influence while controlling for confounding factors. This approach helps the study to ensure that the observed effects are directly linked to the variables of interest, providing more precise and reliable insights into the effectiveness of microcredit programmes. The study will use quantitative analysis by adopting stepwise regressions. The first step for this approach is data management. The researcher will clean the collected data before moving on to the stage of analysing it. This stage ensures accurate analysis, leading to accurate findings, good judgement on the hypothesis, and interpretation representing the dataset. Other data preparation steps for quantitative data analysis include data validation, data editing, and data coding.

Generally, quantitative data analysis techniques are typically categorised under descriptive statistics and inferential statistics (Eteng 2022). The process starts with a descriptive statistical stage, which is used to describe a dataset. It aids in understanding the specifics of the collected data by summarising it and identifying patterns and trends from the data sample. The measures of central tendency (mean, mode, and median), dispersion (range, quartiles, variance, and standard deviation), and distribution (skewness) are some of the descriptive statistics approaches used in the study. Next is the need for the researcher to run appropriate inferential statistics. This aims to make predictions or highlight possible outcomes from the analysed data obtained from descriptive statistics. This allows researchers to assess the ability to draw conclusions that extend beyond the immediate data. For example, if there are changes in the measures used over time and if there is a relationship between two or more variables. Various statistical analysis methods are used within inferential statistics. However, the study will use stepwise multiple regression analysis, which will be further explained in the subsequent sections of this study.

3.4.2 The Process of Qualitative Data Analysis

Basically, this will involve the process of preparing and organising the raw data into significant units of analysis. Therefore, all text, audio, and image data will be transformed into transcripts, photos, and charts, respectively. Any irrelevant data that are not suitable for the study will be discarded. The data will be studied, repeatedly classified, and categorised for deeper engagement. By means of systematic reading and coding of the data, recurrent themes linked to the research questions will be identified. In doing this, an iterative and inductive research process is adopted, as the research themes are defined and refined based on the emerging data.

The application of thematic analysis, a qualitative data analysis method, is justified due to its systematic approach in identifying, analysing, and reporting patterns within qualitative data. This approach allows for a deep exploration of participants' experiences and perceptions, revealing nuanced insights that might not be captured through quantitative analysis alone. By organising data into meaningful themes, the technique aids the study in understanding the underlying context and complexities of microcredit's impact on household expenditure and business performance. It offers flexibility in interpreting diverse data sets and ensures that the findings are grounded in the actual experiences and voices of the participants, enhancing the depth and validity of the study.

This process involved the researcher analysing the clients' answers to identify what components or features of the microcredit had impacted them the most and why. Again, the responses are also analysed to discover which of the components or features have the potential to enhance or limit the success of the accessed loan. The discussion will allow the existing literature to generate links and put the research findings within the wider literature in place. There will also be interpretations of what the outcomes mean to achieve the research objective. Direct quotes from the respondents will be used to support the integrity of the discussion and conclusion while reporting findings.

3.4.3 Assessing Validity and Reliability of Research Instruments

Reliability and validity are connected to the concept of objectivity. In quantitative research, objectivity is determined by the instruments used, whereas in interpreting qualitative data (i.e. open-ended questions), it depends on the interpreter. To address this, interpreters should acknowledge their theoretical and perceptual assumptions, and steps to avoid bias should be described. These steps should ensure consistency and accuracy (Al-Hemyari, 2018). Although reliability and validity are distinct, they are closely linked. They are not inherent traits of measures and can be influenced by the measurement's context and purpose. Assessment instruments must be reliable and valid for a study to be credible, ensuring credible study results (Howitt & Cramer, 2011).

Reliability

Howitt and Cramer (2011) define reliability as the consistency of a measure or its components in providing similar results. In other words, it means that the assessment tool yields the same results when used under the same conditions with the same types of subjects. Reliability indicates consistent and dependable results, and it is also linked to the replicability and stability of processes and results, forming part of the validity assessment (Leung, 2015). Put differently, it is the idea of replicability, repeatability and stability of results or observation (Cypress, 2017). However, measuring reliability in open-ended survey questionnaires, like in this study[60], can be challenging due to the subjective nature of responses and variations in how different respondents interpret and answer questions. Al-Hemyari (2018) asserts that all the reliability measures of the survey questionnaires cannot be measured unless the scale of measurements is based on numerical values.

The researcher employed a carefully designed approach, training, and thorough pilot testing to enhance reliability. The study utilised clear and simple language, maintained a consistent format, engaged with other researchers to reduce research bias, and adopted pilot testing and internal consistency approaches to ensure the questionnaires' and interview questions' consistency and reliability.[61] Additionally, a pilot test was conducted to identify issues with question clarity, interpretation, and consistency, and the feedback was used to refine questions and improve clarity. The supervisory team also conducted internal consistency, examining the extent to which different items within the questionnaire and interviews intended to measure the same concept produce similar responses. Note that several questionnaire items were replaced until the team was satisfied and agreed that the current items could be adopted. The consistency was assessed through thematic analysis, which closely examined the data to identify recurring themes and patterns of meaning due to varied and somewhat unquantifiable responses. With these measures in place, the study achieved reliable interview questions, questionnaires, and dependable responses. The supervisory team agreed that the questions were consistent and useful for collecting the relevant data needed to address the research question. It is important

[60] The survey questionnaire and interviews used as assessment tools relevant to the study to elicit respondents' responses were generally open-ended, and the responses cannot be scaled. The demographic questions in the survey were only used as control variables.

[61] A measure of the extent to which cases respond in a similar or consistent way on all the variables that go to make up a scale.

to note that the study used a cross-sectional survey; therefore, it is recommended that the research be replicated using a longitudinal survey.

Validity

Like the reliability of the research instruments, the survey questionnaire and interview questions used for the study were subjected to a validity test using the content method. Validity refers to the extent to which a measurement tool accurately measures or answers the study question or what it is intended to measure. Validity is an assessment of its accuracy. It is not a property of the tool itself but rather of the interpretation or specific purpose of the assessment tool (Mcleod, 2023; Sullivan, 2011). The survey questionnaires underwent a content validity test to ensure they represent all aspects of the intended content domain and to assess whether they have the appropriate content. A team of supervisors, with expertise in microfinance and quantitative research methods, who served as the *judging panel* (Howitt and Cramer, 2011), conducted a thorough review and evaluation of the survey questionnaire and interview protocols to measure the impact of microcredit on household expenditure and business performance. The supervisors meticulously examined each item for clarity, relevance, and alignment with the theoretical concepts of access to credit and financial exclusion. They provided critical feedback on the appropriateness of the questions, suggesting revisions to enhance precision and eliminate potential biases.

It should be emphasised that the study's initial sets of questionnaires and interviews had to be replaced by subsequent sets to ensure robustness and relevance. This collaborative effort helped refine the instruments, ensuring they accurately capture the dimensions of financial behaviour and economic outcomes relevant to the study. Incorporating the team’s expert insights significantly strengthened the content validity of the research tool, providing a solid foundation for reliable and valid data collection. The accuracy and appropriateness of the responses obtained confirmed the instrument's validity.

3.5 Fieldwork

The justification and the method of selecting the microfinance institution (OISL) where the fieldwork took place are provided in section 3.8. Having to decide the study's direction and outline the actions needed to successfully reach the aim of the study, the next scheduled item is the plan's implementation. It is worth mentioning that this will be executed through a fieldwork activity. This part of the study outlines a reflective description of how this is accomplished, starting with selecting a suitable study area and MFI, gathering data and the technique for analysing the data.

3.5.1 Selection of the Survey Area

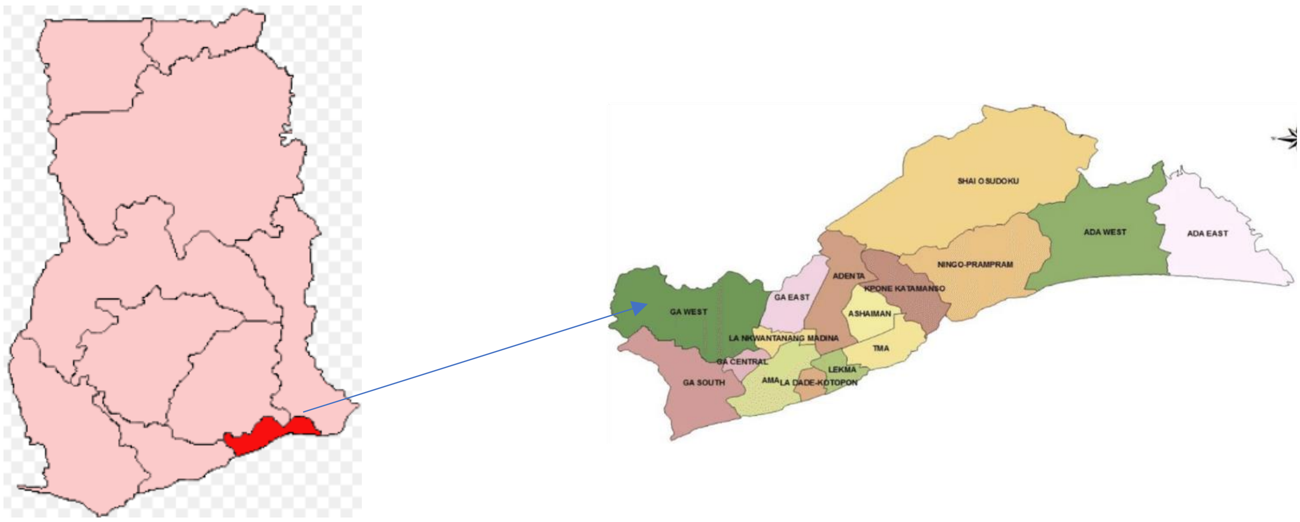
One of the key decisions in this research activity is to select an area to conduct the research. Bechhofer and Patterson (2000) suggest that conspicuously, every so often, the decision is directed by the contextual suitability of the location under discussion, in addition to the interest and imagination of the researcher, rather than just the need to apply scientific knowledge to answer a couple of research questions. Therefore, there is a conscious decision to select Ghana, as it has been the home country for the researcher for many years prior to the research work. Moreover, in spite of the accelerated proliferation of microfinance enthusiasm and the poverty level in Ghana, most MFI studies are on Asian countries, and the results of these cannot be smoothly transposed to the African context. The survey selection was guided by a strong contextual emphasis together with the objective of investigating microcredit from the client's perspective. A number of factors steered the selection of the community. These include the availability of an MFI, socio-economic attributes similar to the national profile, the researcher's familiarity with the study area and the researcher's safety. The researcher selected the Greater Accra Region (Figure 3.1) in the southern part of Ghana for the survey of this research based on the specified criteria. In addition to the purposive selection of the survey area, the survey area needed to have poverty characteristics similar to the national rates so that the results could be applied to other communities. Afterwards, a suitable microfinance institution was chosen to equip the researcher to answer the research questions.

As already suggested, the researcher's familiarity with the study area's economic, language, social and cultural characteristics correspondingly motivated the selection of the region with the emphasis on context in this study. This follows the assertion made by Hershfield et al. (1983), which argues that during fieldwork, researchers should have detailed knowledge of the study area's values, economic issues and social organisation prior to data collection activity. Drawing upon my field trip experience, I am convinced that a researcher's ability to communicate in the same language as the study area is vital because of the low literacy rate of the respondents. Also, a researcher's ability to speak the local language displays greater respect for their culture and enhances their (researcher's) prospects of being 'accepted' and given the needed information. While Ghana had an adult (15+) literacy rate of nearly 77%[62] in 2018, there is a low literacy rate among the inhabitants, and many of these people communicate in the Twi or Ga language. Therefore, whereas the interview with the key personnel of OISL was administered in English, the questionnaires were conducted in Twi. To maintain control over the fieldwork exercise, the researcher had the benefit of administering and translating the questions himself. This agrees with the idea of Devereux (1992), who believes that having a good command of the study area's language allows the respondents to express their lived

[62] https://www.indexmundi.com/ghana/literacy.html

experiences freely. This is a suitable method for gathering richer information. Having settled on the Greater Accra Region, the microfinance interventions by Opportunity International Savings and Loans Limited (OISL) in Ghana were identified to be used for this study.

Figure 3.1: Map of Greater Accra Region (study area) in Ghana



3.6 Economical, Financial and Socio-Cultural Profile of the Study Area:

Greater Accra Region

Greater Accra Region (GAR) (Figure 3.1) is located in southern Ghana, with Accra as its regional capital. It is the smallest of the 16[63] administrative regions in terms of area, occupying a total land surface of 3,245 square kilometres, which is about 1.4 per cent of the total land area of Ghana[64]. Accra also serves as the capital city of Ghana. The GAR shares a regional border

[63] Until February 2019, there were only 10 regions in Ghana. On 12th February 2019, the NPP government led by President Nana Akuffo Addo created and issued Constitutional Instruments (CIs) to give effect to the creation of the six new regions. This was after the new regions received massive endorsements in a referendum held by the Electoral Commission (EC) in the affected communities on 27 December 2018.

[64] http://www.ghana.gov.gh/index.php/about-ghana/regions/greater-accra

with the Volta Region on the east, the Eastern Region on the north and the Central Region on the west. On the south of the region is the Gulf of Guinea, with a coastline of over 225 km, which means that tourism is a major industry.

Nonetheless, owing to in-migration and a high population growth rate, it is the second most populated region, with a population of over 4 million[65], which amounts to 15.4% of Ghana's total population. This has contributed to it being the region with the highest population density[66]. It is made up of 16 administrative areas. A central government chief executive controls each district, municipal or metropolitan area within the region. However, these administrative heads derive their authority from the assembly headed by a presiding member elected from among the members. The people of GAR come from different ethnic groups. The major groups are the Akan (39.8%), Ga-Dangme (29.7%) and Ewe (18%).

Nevertheless, the Gas form the largest single sub-ethnic group, amounting to 18.9 per cent. Out of these groups are the Christians, who form the largest religious group (83.0%), followed by Moslems (10.2%). 4.6% of the people are recognised as not having any religion, whilst 1.4% are registered as members of the African Traditional Religion.

Greater Accra has few mineral resources; the soils have low organic content with shallow topsoils, limiting crop production capacity[67]. The mineral resources include only granite, clay and salt.

The primary economic activities in the region include financial and government services, communications, construction, transport and agriculture, particularly fishing. Over 70 per cent

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[65] Ghana Statistical Service Census 2010

[66] The region has remained the most densely populated region in the country since 1960. Population density (measured as the number of persons per square kilometre) has increased from 151.6 in 1960 to 895.5 in 2000. The region's population density has doubled between 1984 (441) and 2000 and this is, in part, a reflection of migratory movements to the region. The densely populated nature of the region is brought into sharp focus when it is compared with the other regions.

[67] https://www.unicef.org/ghana/P1417_unicef_ghana_GREATER_ACCRA_WEB.pdf

of Ghana's manufacturing capacity is located within the capital area. However, the spine of the region's economy is majorly the private informal sector, which is heavily characterised by lots of 'buying and selling' activities. Fundamentally, the private informal sector employs six out of ten economically active people in the region. This large part of the informal sector indicates a lack of formal employment opportunities that compel individuals to create their own jobs. This repeatedly leads to the fractionalisation of profits and a condition of shared poverty. In view of the fact that the private informal sector dominates the institutional sector in the region, there have been calls for the district assemblies and central government to train and equip this large workforce with new skills to participate effectively in their respective districts' economies. This would perhaps create the opportunity for the private informal sector to access 'soft' loans from banks or MFIs for business. The aim would be to strengthen these businesses to transform into private formal entities, provide employment avenues, and impact the economy.

Accra is the location of most government ministries, departments and agencies, which are the main employers of the salary-earning population. It is the administrative, economic, and educational centre of Ghana. The head offices of all the major banks, trading firms, insurance companies, electricity corporations, and post offices are located in the capital. In addition, it is the location of numerous large open markets that handle the food supply. Survey findings from the Integrated Business Establishment Survey (IBES[68]) report show that more than 70% of all revenue generated by establishments was concentrated only in the Greater Accra Region alone[69]. In their report, the World Bank (2008) predicted a contribution of around US$3 billion

[68] The IBES has the aim of collecting the establishment-level information essential for Ghana's development. They create and maintain a primary database for statistics and information within all sectors of the Ghanaian economy.

[69] See https://www.ghanaweb.com/GhanaHomePage/business/70-of-all-revenues-are-concentrated-in-Greater-Accra-586819

of Ghana's total gross domestic product (GDP) come from the economic activities in Accra alone[70]. According to the World Bank (2017), there are fewer than nine bank branches per 100,000 adults in Ghana[71]. Therefore, formal and semi-formal financial institutions are heavily involved in providing financial services in the region. It is common knowledge that borrowing from friends, family or a relative to complement one's monthly salaries or business activities is a known practice in Ghana. The researcher found that borrowing or saving with family members is repeatedly practised in the region. The Ghanaian community, and in this instance the Gas, typically takes satisfaction in their social networks, which frequently contribute to supporting events like weddings, baby christenings (*kpojeemo*), helping relatives in need and funerals. Some of these events normally become strategies for raising money in times of need. Money lenders also exist and operate to provide informal money services to borrowers. Another informal operation that is worth mentioning is the practice of '*susu*[72]' collectors, who arrange daily or weekly collections and savings of monies for typically market traders in the various local communities. Therefore, the *susu* collection scheme offers a way to save small amounts of money over a period of time to build a lump sum that may be used when the need arises in the future (Rutherford 1999). Accordingly, despite the continued growth in the number of formal MFIs, there seems to be a demand for informal services.

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[70] http://www.worldbank.org/afr/wps/wp110.pdf Archived 12 February 2011 at the Wayback Machine World Bank Africa Region Working Paper Series 110 (PDF). Accessed on 06 Feb 2019.

[71] https://data.worldbank.org/indicator/FB.CBK.BRCH.P5?view=chart Accessed on 06 Feb 2019.

[72] *The Susu collection system*, identified as one of the ancient Ghana traditional banking systems that vaguely mean "small small" to specify a daily saving contribution paid by the economically active poor who choose to join the scheme. Usually, the *Susu* collector, a trustworthy person in the community visit clients on a regular basis collecting very small deposits over the course of a month. At the end of the month, the *Susu* collector returns the accumulated savings to the client but keeps a day's savings as a commission or fee. CGAP estimates that there are 3,000-5,000 *susu* collectors in Ghana providing for more than half a million customers, with a monthly deposit base of at least US$50 million (Michaels 2012).

On the subject of the socio-cultural characteristics of GAR, there is the existence of 'traditional roles' for men and females in spite of the growing trend of gender-neutral occupations or jobs. Away from the government service, whereas the females engage in hairdressing, dressmaking and petty trading, the men are more likely to be involved in transportation, carpentry, farming, plumbing, sales and particularly fishing. The region tends to follow the male-dominated patriarchal system commonly practised in Ghana, where men have authority over females in all aspects of society. For instance, although females can acquire land and properties for themselves, the general practice is that they are more likely to retain ownership of assets if they continue to be married into a household. The introduction of PNDC Law 111 sought to protect inheritance rights concerning females and children, as customary law often provides females unequal access to their late husbands' estate when there is no legal will in place. The impression created is that females tend to occupy a 'lower' socio-economic status than their male counterparts. Could the above reason be one of many why females tend to be the target of MFIs in a developing country such as Ghana? Perhaps these and other characteristics emphasise the reasons for the need for MFIs and their services to their predominantly female customers.

The next stage of the study is to execute the previously considered research and methodological approach. This is after when the study area has been selected and the study MFI has been identified. The aim is to ensure that the data collection, analysis and interpretation method reinforces the theoretical foundations laid out for the study. Consistent with Owulabi (2015), although the researcher had much preparation and meticulousness, the fieldwork exercise was very challenging because the day-to-day activities in developing countries such as Ghana are riddled with uncertainties and a lack of orderliness. Whereas the control of the data collection by the researcher can be seen as an advantage, the researcher should be adept and knowledgeable for high data quality. This supports Leslie & Storey (2003), who note that to handle complex situations during fieldwork in developing countries, the researcher has to have much discretion, endurance and preparation.

In anticipation of the challenges that lie ahead, the researcher conducted a comprehensive exploration of available data that can ensure the research questions are properly answered. A preliminary search indicated that although there seemed to be data available, much effort was applied to gather enough quality data on microfinance to ensure that the research questions were adequately answered. Although the Ghana Statistical Service (GSS), for instance, had conducted the sixth and seventh rounds of the Ghana Living Standards Surveys (GLSS7 and GLSS6), which made available valuable information on the living conditions and well-being of households in Ghana, it was observed that the information is insufficient. The dataset showed a dearth of quality data on the implementation processes of microfinance interventions and the level of effects of the various factors on the success of the credit given to the borrowers. Therefore, it becomes essential for the researcher to conduct a fieldwork exercise to generate the necessary data cognisant of the key role of the context in this study.

3.7 Gaining Entry into the Field: Branch and Group Selection

The researcher (through phone calls and emails) had to introduce himself to the Head of Marketing of OISL to make an application for permission to adopt the MFI for this study. The process was smooth, and the application was subsequently granted. The fieldwork exercise took place between 10th July and 17th August 2018. Prior to my visit to a branch, I went to the head office for it to be arranged beforehand. The researcher was granted permission to the MFI's local branch office and solicited assistance regarding contacting groups and individual clients. The number of years a branch has been in operation and the number of prospective respondents were factors considered in the selection. The aim of the study's research questions requires that, at the minimum, clients should have been in their second cycle of borrowing for it to have a meaningful impact. The researcher independently selected the prospective respondents of the individual for the study. The number of OISL branches visited was constrained by the available resources, but the choice of particular branches was purposely selected to include predominantly rural and peri-urban areas. These areas include Adjen Kotoku, James Town & Bukom, Circle and Ashaiman.

Although the branches are located in commercial and active areas, most clients arrived from the surrounding rural areas. The branches provide services to many farmers and traders, mostly females, who set their wares or stalls in these markets. The homogeneity in the clients of OISL was observed during my visits to the branches. Most clients are females with shops and stalls that sell similar products. It is interesting to also know that the shops are located within a close area.

As previously stated, the respondents studied involve microfinance service clients with access to microcredit through individual lending. Therefore, it was only appropriate that the sampling of the clients start at the individual level. Although this is the case, some groups were also sampled because it was observed that some clients borrow in groups and are subject to joint group liability[73]; each person is allocated their own credit. As mentioned before, approval to visit the local branches of OISL was sought from the Head of the Marketing Department at the head office in Accra. The head office would then inform the managers at the local branches about my visits. The local managers were asked to give the researcher every necessary assistance for expedited data collection. A desk was set aside for the researcher at a convenient place in the branch where respondents were directed to him when they arrived to either deposit

[73] This is a group consisting of 4-10 individuals who come together for the purpose of securing a bank loan on individual basis or through group mechanism. The MFIs then tend to shift the burden of monitoring, enforcement and loan default onto these groups. Expressed in a different way, it means the group members have to be responsible for the liability of loan repayment of their peers on behalf of the intervention.

money into their accounts or make part payment of their loans. The respondents were purposively sampled[74]. This happened at the branches at Ashaiman and Circle. There were days when the researcher had to accompany the loan officers on their field trip to visit the loan beneficiaries. On my trip to James Town, for instance, I was introduced to a loan officer on my arrival at the local office, who accompanied me to their weekly group meetings. Before the meeting started, the loan officer introduced the researcher to the group and informed them that the exercise had obtained prior approval. The researcher was introduced as a student engaging in the research as a partial requirement for a university degree. Possibly, this assisted in establishing the credibility of the researcher. Afterwards, potential participants would be given sufficient information to decide whether they want to participate in the research study. The information includes the purpose of the exercise, what is required of those who agree to take part and the ethical issues surrounding the exercise. This aims to further build a relationship and bond with the potential participants. In the face-to-face interviews, participants were taken through the content on the information sheet and, in addition, were made to sign a consent form.

Further explanations and interpretations were given to those who could not read the information sheet themselves. Although the participants were informed and their approval sought, they were verbally reminded of the intent to record the interview. In the case of the questionnaires, no consent form is needed as consent is implied by returning or filling out the questionnaire.

3.8 Research Strategy

[74] Also known as, the judgment sampling, the purposive sampling technique is the selection of a participant deliberately because of qualities the participant possesses. In other words, the researcher chooses the people, who can supply the information needed, because of knowledge or experience (Etikan et al. 2016)

This section describes the step-by-step plan of action that is to be adopted to guide the broad framework on how the study should proceed. The study's aim and the required data type and availability must be determined when deciding which research strategy to use (Naoum 1998). Bryman (2001) asserts that the methodological approach determines the data collection and analysis to be used. Again, the research questions influence which survey areas, types and methods of data collection and others to be adopted. As already suggested, Eriksson and Kovalainen (2008) assert that the survey brings to focus complete and detailed knowledge that is robust in the analysis of multiple empirical sources endowed in context. They suggested the different types of data collection methods through which data can be collected. These techniques include interviews, observation, questionnaires and secondary data. Given the focus of the study, the study employs survey-based techniques for data acquisition, including questionnaires and face-to-face interviews.

3.8.1 Questionnaire

A questionnaire is one of many research tools often used, whether social science related or even socially related, because it aims to understand human beings in a social context by interpreting their actions as a single group, community or event. In his book, Saunders et al. (2009) cited deVaus (2002), defining questionnaire as a general term to comprise all methods to collect data in which each respondent is asked to answer the same set of questions in a predetermined order. It consists of a series of questions especially addressed to a statistically significant number of subjects to gather information from respondents. Alternatively, questionnaires can be seen as a type of written interview conducted by telephone, computer, post or carried out face-to-face (McLeod, 2018). According to Dudovskiy (2018), questionnaires can be grouped either as quantitative or qualitative methods depending on the nature of the questions. Specifically, data collected through closed-ended questions with multiple-choice answer options are analysed using quantitative methods. However, answers acquired through open-ended questionnaire questions are analysed using qualitative methods and involve discussions and critical analyses without using numbers and calculations. The questionnaire formed the first primary data collection method for this study, and the study's research objectives guided its content. A questionnaire has the advantage of increasing the speed of data collection, low cost requirements, taking it to a wider audience and higher levels of objectivity compared to many alternative primary data collection methods. However, questionnaires can have the disadvantage of not being able to customise to individuals, as it is possible with other data collection methods. Therefore, respondents cannot express their additional thoughts about the matter due to the absence of a relevant question.

3.8.1.1 Approach for Selecting the Study's Research Instruments

To ensure the selection and adoption of questionnaires and interview questions for the study, careful planning is essential. This process encompasses a systematic approach aimed at ensuring precision and relevance. This guarantees that the instruments effectively measure the subject matter and contribute to the overall reliability and validity of the instruments. The researcher initiates this process by defining the research objectives and identifying the key outcomes that need to be measured. A literature review is conducted to appreciate how similar variables and outcomes have been assessed in earlier studies and to identify validated tools. Subsequently, an initial set of questions is formulated based on the review and the study's theoretical framework. These questions are carefully refined to ensure clarity, relevance, and simplicity while avoiding any ambiguity. Collaboration with the supervisory team's expert is instrumental in this refinement process. Feedback from the expert is used to fine-tune the research instruments. A pilot test with a representative sample is then conducted to assess the instruments' performance. Further reliability and validity tests are executed to refine the questionnaire and interview questions accordingly. This rigorous process ensures that the research instruments effectively capture the data necessary to address the study's research questions.

3.8.1.2 Questionnaire Construction and Administration

For this study, a researcher-administered questionnaire was considered one of the most suitable instruments for data collection. One set of questionnaires was designed for the loan beneficiaries. Given the objectives of the research questions, the data was anticipated to collect information on borrowers' evaluation of microfinance implementation processes and specifically enable the researcher to account for the factors that enhance or reduce the effectiveness of microcredit. Therefore, the questionnaire designed for this study is to solicit the needed information as explained in the previous section. The survey questions gathered data on borrowers' demographics in light of the significance of comprehending the differences in experiences across various socio-demographic characteristics. The researcher assumes that different borrowers might have different experiences with microfinance because of their different socio-economic statuses. Therefore, the researcher can suggest that whereas borrowers on a higher socio-economic status are more likely to use the loans for business purposes, low-income and poor borrowers might have more competing purposes and uses. For this purpose, the questions also gather information on borrowers' occupations and household financial situations as to the sources of income. Information was also collected to ascertain the cost of securing the loan and loan repayments. Finally, the questions were designed to collect information on borrowers' experience with microfinance vis a vis experience with interest rates, savings, and the effect of the credit on business and household as well as non-financial services as features of microfinance. Generally, these questions sought to find, from the borrowers, which microfinance factors can improve or limit the success of the acquired microcredit.

The questionnaires for the loan beneficiaries used simple English because of their illiteracy level. As will be discussed later in the sample and sampling procedures section, my target sample or units of analysis were the 200 microcredit individual loan beneficiaries in the rural areas in the Greater Accra Region in Ghana (Figure 3.1). The local branches assisted the researcher in the smooth collection of data. Due to the nature of the study area, characterised by high illiteracy with unreliable postal and telecommunications facilities, face-to-face questionnaire administration was considered the most appropriate. The questionnaires were carefully administered to loan beneficiaries who have been carefully purposively sampled. Again, it is worth pointing out that some questionnaires were administered at their scheduled meeting places, which are usually far from the local offices. The number of respondents served with the questionnaires either at the local branch or at the external meeting place was encouraging. The researcher read the questions and interpreted the language if needed, and the responses were recorded. Response rates were quite high, as all respondents approached willingly agreed to respond to the questionnaire. Overall, the questionnaire had 43 open and closed-ended questions in total (see Appendix 1 attached). Table 3.2 shows the local branches and the number of service clients who answered the questionnaires.
On average, each questionnaire took about 20 minutes to complete.

Table 3.2 Local Branches and Numbers of Borrowers.

No	Local Branch	Borrowers
1	Adjen Kotoku	45
2	Ashaiman	74
3	James Town	51

4	Circle	30

It is important to note that further information was obtained on the perception of the service users of the microfinance interventions during the researcher's informal interaction with some of the service users.

3.8.2 Interviews

Interviews are one of the familiar instruments for collecting qualitative data and allow researchers access to rich information (Bryman, 2004; Dicicco-Bloom and Crabtree, 2006). An interview can be defined "as a social encounter where speakers collaborate in producing retrospective and prospective accounts or versions of their past or future actions, experiences, feelings and thoughts" (Seale et al. 2004:210 cited in Putu 2016:38). Interviews help the researchers to have access to valid and reliable data that are relevant to their research question(s) and objectives. Easwaramoorthy and Zarinpoush (2006) note that interviews are suitable methods for collecting in-depth information on people's opinions, thoughts, experiences, and feelings.

Further, they are useful when the research topic borders on issues that demand complex questioning and considerable probing. Although the Internet is emerging as a tool for interviewing, the authors recommend face-to-face interviews as suitable and better than if conducted through other means, such as over the telephone. Usually, a topology that is adopted relates to the level of formality and structure. Therefore, interviews may be grouped as structured, semi-structured, unstructured or in-depth (Saunders et al. 2009; Dudovskiy 2018; Dicicco-Bloom and Crabtree 2006; Easwaramoorthy & Zarinpoush 2006).

Specifically, semi-structured qualitative interviews were employed in this study as a generative technique suitable for obtaining the expressed lived experiences of microfinance service users. A semi-structured interview goes beyond the collection of information to proffer an understanding of the actions of respondents' attitudes and ideas (Hall and Rist 1999). This technique involves open communication yet a focused set of questions between the interviewer and the interviewee. This allows the former to ask additional questions and probe for details and new ideas based on the response to previous questions. The researcher purposely used active follow-up questions, prompts and probes to elicit more information and to enquire that the understanding of the responses is what the interviewee intended to convey. The study adopted 2 sets of interview questions for the staff and the microfinance service users.

On the part of the service users, as shown in the appendix, some of the questions gave respondents a fixed set of options to select from and respond to accordingly. Moreover, other questions were less structured as they gave no fixed options. Rather, it allows the interviewees the freedom to provide answers to the best of their estimates and knowledge. Examples include the difficulty(ies) encountered in accessing the loan, description of their relationship with the staff, the interest charged on loans, whether microcredit has made them better or worse, and why. In the case of the groups, those who act as 'group leaders' organise the group meetings at a convenient place and are also responsible for collecting repayments. Therefore, they can have personal and detailed information on the experience of their members with microfinance and what implementation processes and microfinance features, in addition to borrower practices, are more likely to work. Whilst the service users themselves were willing to provide information and recount their experiences, the leaders were able to clarify issues and further provide additional information on their members. The researcher tried to get in touch with previous clients who have exited the scheme in order to share their experiences. This could have given the researcher an in-depth knowledge of what did not work for them.

Interview questions (Appendix 2) for the staff include a description of performance indicators, the challenges encountered in implementing programmes and factors that improve or limit the likelihood of microcredit to reduce poverty. Data were collected from the key and relevant personnel from Opportunity International and Savings Limited, who also helped interpret some key concepts. Managers and Field Officers were the respondents. The interviews were recorded using an audio recorder and then subsequently transcribed using a false name to preserve the anonymity of respondents. The data was stored with an encrypted password.

The data collected for this research provide an overview of the search area through which a clear observation can be made to reach a decisive conclusion. Therefore, as already indicated, the primary field instruments adopted for the data collection include a face-to-face semi-structured interview and a survey questionnaire. The aim of collecting primary data is to conduct individual interviews with 20 employees and clients and administer questionnaires to 200 service users of OISL.

3.9 Secondary Sources

To ensure the overall reliability and validity of the research, Saunders et al. (2012) recommend that the study should seek to employ both primary and secondary data sources. Therefore, the study employed secondary data sources in addition to the adopted primary collection methods already discussed. This is in line with the observations made by Overton and van Diermen (2003), who note that gathering secondary data during fieldwork in emerging countries is a normal practice, whether a qualitative or quantitative study is being embarked upon. Therefore, secondary data not only can provide information because of its special qualities but also augment a researcher's own collected data (ibid 2003).

The secondary data sources incorporated into the studies include OISL's official documents, government reports, historical data, previous research material, media products, etc. To help collect data, the study had the privilege of accessing the Ghana Statistics Service (GSS) database, and they had finished the seventh round of the Ghana Living Standards Survey (GLSS 7[75]) conducted in 2017 with the reports created and modified in 2018 and 2019, respectively. The survey offers valuable insights into the socio-economic characteristics of households in Ghana. The GLSSs is dedicated to the measurement and monitoring of living conditions, income, and expenditure patterns, which are pivotal for the formulation of evidence-based policies to address poverty. The survey comprehensively gathered information on various aspects including demographic characteristics of the households, education, health, employment, migration & remittances, information communication and technology (ICT), tourism, housing, household agriculture, non-farm household enterprises, financial services, anthropometry, and assets. It also encompassed inquiries into households' perception of governance, peace and security, and their understanding of data protection in Ghana. The findings from the survey have been instrumental in creating a poverty profile report and have helped in monitoring progress towards achieving national policies and international agreements, including Targets 1.1 and 1.2 of the United Nations Sustainable Development Goals (SDGs). These goals aim to respectively eliminate extreme poverty for all people

[75] The Ghana Living Standards Survey (GLSS7) is a comprehensive household survey designed to provide essential data for monitoring, evaluating, and understanding the living conditions and well-being of Ghanaian households. This survey, the seventh of its kind, was conducted nationwide over a period of 12 months, from October 22, 2016, to October 17, 2017 (Ghana Statistical Service - Government of Ghana, 2018).

worldwide and reduce by at least half the proportion of men, women, and children of all ages living in poverty in all its dimensions by 2030.

3.10 Population and Sampling

As already mentioned, the research focuses on the OISL, a Ghanaian microfinance institution with branches across all regions. Four local branches in the Greater Accra Region were selected for the study to justify a broader perspective and better interpretations and reality of participants. These are James Town, Ashaiman, Adjen Kotoku and Circle. These branches were selected because of their high patronage and accessibility of information, as well as ensuring a more detailed investigation that would yield more valid and reliable results.

Sampling can be explained as a subset selected from a population. There are two main types of sampling – the vital point is whether or not the selection involves randomisation. Whereas every unit in random sampling has an equal chance of selection, units in non-probability sampling do not involve randomisation (Gall et al. 2003). Purposive sampling offers a wide range of diversity within a given population rather than giving a statistical generalisability or representativeness. (Kuzel 1999; Harding & Gantley 1998). This means that it is a technique widely used in qualitative research to recognise and collect information-rich cases for the most effective use of limited resources (Patton 2002). This encompasses identifying and choosing persons or groups of people who are particularly knowledgeable about or experienced with a phenomenon of interest (Cresswell and Clark 2011). To add to the knowledge and experience, emphasis should be placed on the availability and willingness to participate and the competence to share experiences and opinions in an articulate, expressive, and reflective manner (Spradley 1979; Bernard 2002). On the other hand, Palinkas et al. (2015) note that random sampling provides generalisability of findings by reducing the possibility of bias in selection and regulating the potential influence of known and unknown confounders.

Over the years, qualitative research has become dependent on convenience samples, specifically when the group of interest was difficult to access. Nonetheless, using purposive sampling has given researchers much control rather than being hinged on any selection bias normally found in pre-existing groups. The method allows the researchers to intentionally pursue to include the ‘unreachable’ that are often excluded in other approaches (Barbour 1999, as cited in Barbour 2001).

Given the kind of respondents involved and its benefit of being cost-effective and time-effective, the study adopts purposive sampling because it is a criterion based (Mason 2002; Patton 2002). It is obvious that the researcher determines what type of data is needed and attempts to find the people who can make the information available by virtue of experience and knowledge (Bernard 2002, Lewis & Sheppard 2006). The choice of this study’s respondents depends on the criteria that they must have access to microcredit from OISL.

According to Smith (2020), the size of a research sample is determined by various factors, including the target population, sample required, population size, confidence interval, confidence level, and standard deviation. In the current study, the population size of borrowers is 100000. Selecting 200 borrowers and 25 staff members for the study with a confidence interval of 95% and a margin of error of +/- 5%[76] is justifiable. This implies that to ensure a confidence level of 95% and an error margin of ±5%, at least 196 measurements or surveys are necessary to guarantee that the actual value is within ±5% of the measured/surveyed value.

[76] https://www.qualtrics.com/blog/calculating-sample-size/ & https://www.calculator.net/sample-size-calculator.html?type=1&cl=95&ci=5&pp=15&ps=100000&x=Calculate

3.11 Ethical Considerations

The next section explains the ethical considerations that apply to this research and the efforts made by the researcher to make certain that ethical practices are adhered to. Ethical considerations have been one of the major concerns in social research, specifically when it entails fieldwork. This is brought about because of the invasion of respondents' personal lives. In the course of the field trip, it is demanded of them to disclose and share some personal information that is capable of exposing them to certain risks. The respondents being asked to divulge this confidential information and place it in the public domain raises ethical issues. Therefore, this study requires a firm, rooted and continuous review of ethical issues concerning data collection via face-to-face interviews and questionnaires.

As a result, this study is subject to the required approval from the University of Hertfordshire Ethics Committee. To ensure the integrity and quality of the research and ethical principles are maintained, the study adopts the University of Hertfordshire's Ethics Reviewers 'principles' (2017) as a guide. The ethical concerns to consider for studies are to ensure that:

a. Participants are safeguarded against procedures that may be harmful to them, including physical harm, mental or emotional harm, the intrusion of their privacy or exploitation;

b. Confidentiality is maintained in respect of the identity of those participating in the study and also in respect of any personal information that participants may disclose during the study;

c. Participants will be informed that they may withdraw from the study at any time without being disadvantaged and without having to give a reason;

d. There is a display of proof to check that participants understand the nature of the study and their involvement in it and have given free and informed consent through their own participation;

e. Reasonable steps are taken to avoid or minimise harm to participants and to ensure that where any participants do suffer harm, appropriate professional care will be available promptly, in sufficient quantity, and at no cost to participants;

f. No payments have been offered to participants in exchange for their agreement to participate in your study.

The study identifies the potential risks respondents may face in giving the right responses to the researcher. Respondents who disclose 'disturbing' experiences with OISL or those contrary to the institution's regulations who may have used all or part of their loans on consumption, for instance, can be 'punished' by OISL. It is, therefore, necessary to observe the ethical practice to ensure that respondents are not subjected to possible risk. To adhere to the ethical practice, the researcher invites prospective respondents to participate. This invitation document has the details of the purpose of the research, the participant information sheet, the consent form, and the researcher's contact information. Essentially, the pack provides details of the research, their rights and responsibilities as participants, as well as the obligations of the researcher. Prior to deciding on whether they want to take part, it is imperative that they understand the study that is being undertaken and what the researcher's involvement will include. The respondents are informed of the potential benefits as well as the risks they face should they plan to participate. The choice to participate is completely up to them, barring any inducement or threat.

In some cases, verbal orientation and approval became suitable for obtaining informed consent because of the low literacy level. Respondents were continuously informed of their rights to withdraw at any stage without giving a reason. The anonymity of respondents is also preserved in this study by not disclosing their real names and locations. Good ethical practice also requires researchers' physical and emotional safety not to be compromised. Accordingly, reasonable steps should be taken to avoid these risks by planning actions to promote safety for researchers (Williamson and Burns 2014).

3.12 Profile of Opportunity International Savings and Loans Limited, Ghana

Opportunity International Savings and Loans Limited (OISL) is a leading non-bank financial institution licensed by the Central Bank of Ghana (BoG) to operate as a savings and loan establishment. As an implementing member of the Opportunity International Network[77], it has been at the forefront of transforming the lives of the economically poor in Ghana through microfinance and other transformational services. OISL, being a member of the Ghana Microfinance Network (GHAMFIN), is also a member of the Ghana Association of Savings and Loans (GHASALC). The organisation received its first registration from the BOG in 2004. It has since then focused its key activities on the marginalised low income and poor who have been excluded from mainstream financial services. The OISL, on their website, prides itself on operating a business model that is transformational but also profitable, sustainable, and fast growing. While it encourages a savings culture by offering innovative deposit products, OISL also provides financial education and support. Mainly, it adopts the individual approach form of lending to assist the micro, small, and medium size businesses that form the backbone of most developing economies.

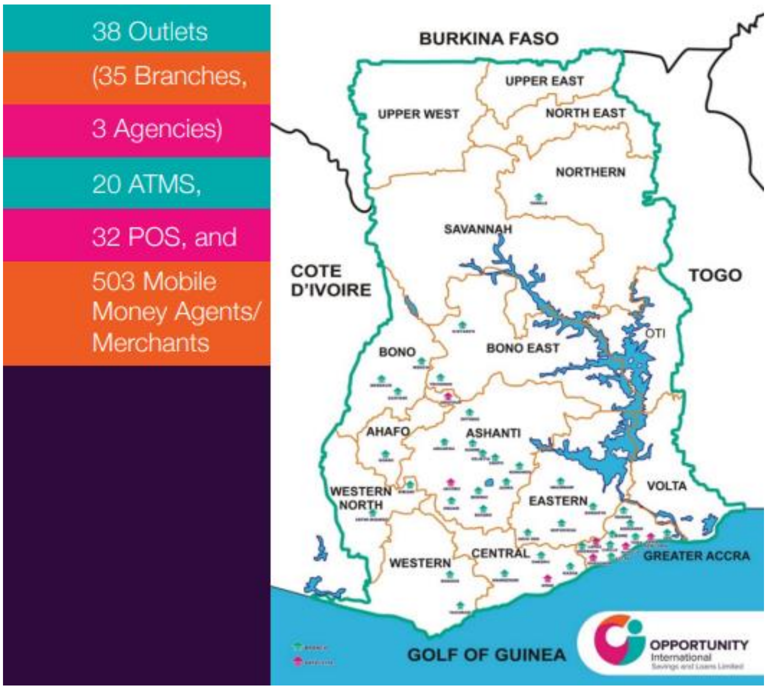
In December 2023, Opportunity International Savings and Loans Ltd had 654,143 customers. The loan portfolio balance was GHC 233.1 million, and the deposit balance was GHC 292.8

[77] A global coalition of organisations dedicated to providing opportunities to people in the less developed countries. The network has 47 partners around the world.

million, with a total asset value of GHC 416.7 million. This makes Opportunity International Savings and Loans Ltd one of the largest microfinance institutions in Ghana. As part of its expansion programme in 2009, OISL diversified its credit portfolio to provide financial services to smallholder farmers, agro-businesses and entrepreneurs in the agro value chain. This was attained with the partnership of different specialists in extension services delivery and off-takers. Meanwhile, it leveraged technology to influence the lives of Ghanaian farmers through high yields, resulting in high incomes. In addition, the institution has been able to maximise operational efficiencies. This was done through the expansive national branch network comprising 38 'brick and mortar' outlets, mobile vans, 4 mobile vans, 20 ATMs and many Point of Sales (POS) devices at local offices and agencies nationwide[78]. Other technological innovations introduced as alternative delivery channels include Opportunity collection, E-zwich debit cards, Opportunity Mobile-Cell phone banking platform, mobile banking, Western Union, Money Gram and Deposit Mobilisation (Susu savings). These were introduced to assist the clients and other stakeholders in transferring money from one location to another. The institution operates in 10 out of the country's 16 regions, promoting financial inclusion and offering innovative products and services to bring clients at the base of the pyramid into mainstream financial services. As of December 2023, OISL has maximised operational efficiencies with a national network consisting of 35 branches and 3 agencies.

[78] OISL Annual Report 2023

Figure 3.2 OISL Geographical Footprint and Deleivery Channels in Ghana



Source: OISL Annual Report 2023

Other services introduced over the period include housing loans for the micro segment of its clients and empowerment loans for the disabled in society. Some of the organisation's financial undertakings include:

a) Channels of savings for the less privileged
b) Transformational loans for the less privileged
c) SME loans for business growth
d) Remittance services
e) Business training
f) Microinsurance
g) Mobile banking for rural outreach and penetration

h) E-banking products

It is worth noting that the researcher was more interested in personal borrowers of OISL. Therefore, the product knowledge toolkits for the organisation's personal and microloans have been summarised in Tables 3.3a and 3.3b, respectively.

Table 3.3a: Features of OISL Personal Loans

FEATURES	AHOTO HOUSING LOANS	AHOTO HOUSING LOANS	SALARY LOANS	SCHOOL FEES LOANS
Description	Ahoto housing loan is a housing loan for small and medium scale businessmen and females, farmers and salaried workers. There are two main types: Home improvement and incremental building.	Ahoto housing loan is a housing loan for small and medium scale businessmen and women, farmers and salaried workers. There are two main types: Home improvement and incremental building.	Short and medium term finance for salaried workers.	Loan to existing OISL Loan clients and potential customers for payment of their ward's School fees and school related expenses
Purpose	For home improvement.	For incremental building.	For emergencies, unexpected bills or special occasions.	For payment of their ward's School fees and school related expenses
Client target market /Income Level	Economically active clients" who are working and are self-employed- Micro entrepreneurs Clients having a Business size of less than GHC20,000	Economically active clients" who are working and are self-employed- Micro entrepreneurs Clients having a Business size of less than GHC20,000	"Economically active clients" who are salaried workers	Economically active clients" who are working and are self-employed (with a focus on females)- micro-entrepreneurs Financially excluded clients who do not have savings/loan accounts with other formal institutions, such as Banks

Eligibility Criteria	**Home Improvement** Applicant should own or rent a house. If the applicant is renting the house, the lease should be at least 2-5 years.	**Building in Stages** Applicant should own land and provide: o Receipt of purchase of land o Indenture and Land Title Certificate · Applicant should be in the process of purchasing land and provide o a Site plan for a search at Lands Commission o Acceptable background check for the purchase of land Applicant must have started a housing project	2 Months' salary must pass through Opportunity accounts (for non-government workers.)	Clients having a Business size of less than GHC 8,000 Applicant must be an existing or new client. Applicant's ward must be in a private basic school or second cycle school. Borrowing clients can access this facility provided they can meet repayment obligations based on their cash flow.
Max Amount	Home Improvement: GHC10,000	Incremental Building: GHC20,000	Monthly repayment of 40% of net salary	Basic Schools **1st Cycle School** GHC 2000 per child **2nd Cycle School** GHC 3000 per child
Grace Period			1 month	1 month

Table 3.3a: Features of OISL Personal Loans

FEATURES	AHOTO HOUSING LOANS	AHOTO HOUSING LOANS	SALARY LOANS	SCHOOL FEES LOANS
Security	Varied/ Optional Guarantor, Lien over Fixed Deposit, Collateral, Stock, etc. Movable and non-movable properties, e.g. vehicles, land, and buildings. Personal guarantor, depending on the loan amount. Cash collateral	Varied/ Optional Guarantor, Lien over Fixed Deposit, Collateral, Stock, etc Movable and non-movable properties, e.g. vehicles, land, and buildings. Personal guarantor, depending on the loan amount. Cash collateral	Guarantor: Employer undertaking to pass client's salary through Opportunity for the tenure of the loan. Last three months' pay slips.	Varied/ Optional Guarantor, Group Guarantee, Lien over Fixed Deposit, Collateral, Stock, etc Clients in the fifth cycle and above do not need a guarantor (s) if the amount is not more than GHC 1000.
Compulsory Savings	N/A	N/A	N/A	N/A
Interest Rate Type	**Reducing**	**Reducing**	**Reducing**	**Reducing**

Interest rate per annum	**N/A**	**N/A**	**N/A**	**N/A**
Interest rate per month	**N/A**	**N/A**	**N/A**	**N/A**
Interest Rate Type	**Flat**	**Flat**	**Flat**	**Flat**
Interest rate per annum	**42%**	**42%**	**36%**	**44%**
Interest rate per month	**3.00%**	**3.00%**	**2.5 - 3%**	**3.67%**
Processing Fee	**3.00%**	**3.00%**	**4.00%**	**3.50%**
Application Fee	**GHC 5**	**GHC 5**	**GHC 5**	**GHC 5**
Insurance Premium	**N/A**	**N/A**	**N/A**	**N/A**
Repayment Frequency	Monthly or bi-weekly	Monthly or bi-weekly	Monthly (Moratorium allowed)	Monthly
Loan Term	Home Improvement: 2 years maximum;	Incremental Building: 3 years maximum	3 years	A minimum of three (3) months. A maximum of one (1) year
Is interest paid on compulsory savings?	N/A	N/A	N/A	N/A
Mode of Disbursement	Bank Account	Bank Account	Bank Account	A cheque/banker's draft to the school. BMs must request a draft from their clearing banks.

Table 3.3b: Features of OISL Micro Loans

FEATURES	SUSU LOANS	AGRO MICRO LOANS (GROUP)	EMPOWERMENT LOANS	AGRIC INDIVIDUAL LOANS
Description	This is granted to Susu deposit clients after a required period of contribution.	Finance for Agric related businesses: farming, irrigation, agro-marketing (inputs, off taking, etc.) and processing, agro equipment and transport.	Loans for Groups of Disabled Micro Entrepreneurs for Business Expansion with Special Consideration for Individuals	Loans to individual Agric clients
Purpose / Need	To buy stock and equipment	Crop production, Animal production, Small Scale Agro-processing, Agro marketing, Agro-implements, Agro-transportation	To buy stock/Asset	Working Capital/ Acquisition of Agric inputs
Client target market /Income Level	"Economically active clients" who are working and who are self-employed (with a focus on females)- micro-entrepreneurs	"Economically active group agro-clients" who are working and who are self-employed in Agric related businesses	"Economically active disabled clients" who are working and are self-employed (with a focus on females)- micro-entrepreneurs	"Economically active group agro-clients" who are working and who are self-employed in Agric related businesses

	Clients having a Business size of less than GHC15,000	Financially excluded clients who do not have savings/loan accounts with other formal institutions, such as Banks	Financially excluded clients who do not have savings/loan accounts with other formal institutions such as Banks.	Financially excluded clients who do not have savings/loan accounts with other formal institutions, such as Banks
		Clients having a Business size of less than GHC 8,000	Clients having a Business size of less than GHC 8,000	Clients having a Business size of less than GHC20,000
Eligibility Criteria	Profitable micro-enterprise that generates regular daily sales. Operate account for 3 months. 18 years old, be in good health. Provide guarantor for amounts above GHC1000.	2 Cycles of production /project, proof of arable land with good terms. Proof of guaranteed market for produce, guarantor/collateral/ group guarantee. Have knowledge or experience in crop/animal production or proof of technical service providers.	Micro or small businesses at least 6 months old	Must demonstrate ownership of Agric business with good terms. Business must be operational for a minimum of 2 cycles. Must have operational experience, i.e. GAP. Proof of guaranteed market for produce guarantee
Max amount	<GHC 10,000 with collateral, GHC3000 without collateral.	Depends on client acreage and input requirements.	Depends on the loan cycle limit/client's capacity to pay	Maximum of ≤ GHC 10,000
Grace Period	N/A 4 weeks	Depends on the gestation period of the agribusiness category	3weeks	Depends on the gestation period of business
Security	No guarantor for loan amounts up to 1000ghc for first cycle clients and up to 2000ghc for follow-on clients. Provide guarantor for loans above 1000ghc to first cycle clients and above 2000ghc for follow-on clients. Provide guarantor and collateral for loans above 3000ghc	Group guarantee/pledge of farm	Group Guarantee, Compulsory Savings	Compulsory Savings, Guarantor, Pledge of business assets
Compulsory Savings	10% of the loan	10% of the loan	At least 10% of the loan	10% of the loan

Table 3.3b: Features of OISL Micro Loans

FEATURES	SUSU LOANS	AGRO MICRO LOANS (GROUP)	EMPOWERMENT LOANS	AGRIC INDIVIDUAL LOANS
Interest Rate Type	**Reducing**	**Reducing**	**Reducing**	**Reducing**
Interest rate per annum	**N/A**	**N/A**	**N/A**	**N/A**
Interest rate per month	**N/A**	**N/A**	**N/A**	**N/A**
Interest Rate Type	**Flat**	**Flat**	**Flat**	**Flat**
Interest rate per annum	**44%**	**48%**	**36%**	48%
Interest rate per month	**3.67%**	**4%**	**3.00%**	4%
Processing fee	**2.00%**	**N/A**	**2%**	3%
Application fee	**GHC 5**	**GHC 5**	**GHC 5**	**GHC 5**
Insurance Premium	**1% of the loan amount**	**1% of the loan amount**	**1% of the loan amount**	**1% of the loan amount**
Repayment frequency	Monthly (from accumulated daily lodgements)	Monthly (Moratorium allowed)	Fortnightly or as agreed on	Monthly instalments
Loan Term	6 to 12. But at the discretion of RO or client	Depends on the crop cycle. The maximum shall be 12 months.	4, 5,6,7,8 months	Depends on the business cycle. Between 1-24 months
	Subject to the discretion of RO/RM	Subject to the discretion of RO/RM	Subject to the discretion of RO/RM	Subject to the discretion of RO/RM
Is interest paid on compulsory savings?	N/A	Yes	Yes	Yes
Mode of Disbursement	Bank Account	Bank Account. The input portion is transferred to Input Suppliers from the accounts.	Bank Account	Bank Account

Source: OISL Presentation Manual (2017)

3.13 Data Analysis and Interpretation

The next section outlines the process of preliminary analysis of data. Data analysis essentially commences with the preparation, translation and transcribing of the data for analysis, and the type of analysis depends on how the data is gathered. For instance, purposeful sampling is extensively used in qualitative research to identify and select information-rich cases related to the phenomenon of interest (Palinkas et al., 2015). The data can also be analysed by generating ordinal variables, nominal or dichotomous variables. On the contrary, Hentschel (1999) notes that the mixed method increasingly employs the sequential approach. In this instance, a hypothesis obtained from the qualitative analysis is tested with the survey data. Statistical analysis can also be used to test the findings of interviews and key informants (Bamberger 2000). For instance, it may be gathered during an interview or questionnaire that the interest rate cost is the main cause of a borrower's inability to repay.

Nonetheless, prior to making this decipherment, it may be necessary to use quantitative analysis to compare the findings of the cost of interest rate to the cost of other factors, e.g. food or rent, to determine if the cost of interest rate is the main issue. The interpretation of findings might be one of the critical stages in mixed methods. Quantitative findings interpreted jointly with qualitative findings will improve the appreciation of the size and degree to which phenomena are ingrained in a specific context. Besides, Robson (2002) suggests quantitative proof may be employed to elucidate or reinforce the study is primarily qualitative research. An additional advantage of a mixed methods approach is the application of qualitative methods at the interpretation stage. Bamberger (2000) asserts that this allows the researcher to do follow-up fieldwork to clarify any discrepancies in the results.

The initial written form for the analysis is characteristically achieved by de-identifying the respondents and transcribing the data. The transcription's precision level plays a crucial role in determining the validity of the data analysed and its reliability. At the end of each interview, the researcher scrutinizes the content to decide the extent of what has been accomplished and what is yet to be uncovered or needs explanation. (Stuckey 2013).

3.13.1 Data Coding

The questionnaire consists of structured and semi-structured questions constructed to capture data across certain dimensions. The sort of information obtained determines the category of each question, hence varied accordingly. First, this study records the data into an Excel spreadsheet. Before entering data into a computer, the responses to the specific questions are coded and categorised before being analysed. The code is developed to show how each variable is recorded (whether it is the actual value or a code). The categorisations and resultant coding are made under one of the following classifications: Ordinal, Nominal and Dichotomous variables.

Ordinal variables

Bryman (2004) notes that these are variables whose categories can be rank-ordered according to a clear classification mechanism. Nonetheless, an ordinal variable does not disclose the differences between the categories. A distinctive feature is that the distances between the categories are unequal across the range. Thus, the differences between the categories could be unknown or inconsistent. Below are some examples from the questionnaire to illustrate ordinal variables:

What is the highest level of education?

□ No education □ Primary □ Middle School Leaver □ SSCE/O Level/A Level

□ 1st Degree □ Master’s degree □ Other (please specify) ………

How often are payments made into the account?

 Daily Weekly Bi-weekly Monthly Other (please specify) ......

Nominal Variables

A nominal variable is for mutually exclusive categories which are not ordered. In other words, nominal variables have two or more categories without having been rank-ordered, as there is no inherent ordering to the categories. This means they do not have a natural ordering of the categories from the highest to the lowest. Normally, they are variables with no numeric value. Therefore, the variables allow allocation of categories yet not in a clear order of the variables in terms of some definite order of preference. Examples of questions that can be categorised under the nominal variables are given below:

What is the main construction material used for the outer wall of your house?

Mud bricks/earth, wood, bamboo, metal sheet/slate/asbestos, palm leaves/thatch (grass/raffia) Cement/concrete blocks, landcrete, stone, or burnt bricks Other (please specify)

What is the main fuel used by the household for cooking? Wood, crop residue, sawdust, animal waste Charcoal or kerosene Gas, or electricity Other (please specify) ……

What is the source of income for the savings account? Profit from business Contribution made by friends/relatives Remittance/Gift Rent income Income from other business Other

Dichotomous variables

A dichotomous variable is a variable that contains precisely two distinct values, levels or choices when measured or observed. Examples that can be classified as dichotomous and are only in two groups are ‘yes or no’, ‘male or female’, and ‘true or false’. Examples found in the questionnaire include the following:

What is your gender? Male Female

Have you ever had difficulties repaying a loan? Yes No

Do you have a savings account with OISL? Yes No

The interviews are coded by organising and labelling the gathered data to distinguish between various themes and the relationships among them. This involves assigning labels to words or phrases representing important (and recurring) themes in each response. These labels are words, short phrases and numbers. This technique makes it simpler to recall, scan and arrange. Coding the interviews to find common themes and concepts is part of the thematic analysis of the study by examining the word and sentence structure to extract themes from the text.

Therefore, in accounting for the factors that determine the effectiveness of microcredit in reducing people who are at risk of poverty, this study will attempt to identify themes, patterns and relationships. The study will organise the qualitative data according to the identified themes based on the components and characteristics of the borrowers. Interviews on the effect of the practices on household and business outcomes will be examined and compared to the quantitative outcomes. Such information, it is anticipated, will support a deeper understanding of the observed factors. The effect of microcredit on households and businesses will be quantitatively analysed to get a better understanding of the outcomes. In evaluating the factors accounting for the success of microcredit on household and business outcomes, the study's quantitative data will employ frequency distribution, contingency tables and econometric techniques.

In conclusion, the quantitative and qualitative data analysis will be independently done to address the aims of and answer the research questions. The interpretation of both methods will be simultaneously completed. In other words, under the mixed methods approach, the study will integrate both qualitative and quantitative research techniques at different phases of the research process, where practicable. This will allow the study to provide a consistent picture of substantial data on microcredit and the factors for its effectiveness from the borrowers' perspective.

3.14 Conclusion

This chapter establishes the blueprint of the study, which will guide and inform the rest of the study. It primarily outlines the research methodologies, strategies and design used in the study. Given that the purpose of the study is to better understand microcredit and the factors for its effectiveness from the perspective of the borrowers. The study is informed by the interpretive theory that underscores the importance of the distinctive individual's own perceptions. In addition, the study will utilise a pragmatist and mixed methodological approach for data gathering and analysis. The data collection process is planned to be adequately fluid to gather and provide contextual information, which is fundamental to the study. Consistent with the selected research approaches, the mixed methods approach is adopted for data collection and analysis. The researcher's familiarity with the language, socio-economic attributes, customs and physical environment hugely accounted for selecting the Greater Accra Region and the OISL as the study area and the MFI, respectively. This adds value to the successful execution of the fieldwork. In spite of the resource constraints, unpredictability, and the lack of general order experienced during fieldwork, the estimated sample size was achieved. To ensure the reliability and validity of the data collected, the researcher administered and conducted all the questionnaires and interviews, respectively.

CHAPTER FOUR

4.0 FACTORS THAT INFLUENCE THE EFFECTIVENESS OF MICROCREDIT IN GHANA: THE CONTEXT AND DESCRIPTIVE ANALYSIS

4.1 Introduction

The literature in the previous chapters explored the effectiveness of microfinance on business in the form of proxy indicators that include business turnover, business size, profit, assets level and employment. The literature defines and interprets the effectiveness at the household level based on the impacts on well-being: health, education, household income, household consumption, housing, and female empowerment.

In this chapter, the study uses a qualitative research approach to examine the factors that explain the successes and failures of microcredit for low-income social groups in Ghana. The study's objectives that the chapter addresses include investigating the factors that increase or limit the effectiveness of microcredit on business and bettering the standards of living of low-income beneficiaries. The findings are analysed based on emerging themes to aid the study in understanding the underlying context and complexities of microcredit's impact on household expenditure and business performance. This allows for flexibility in interpreting diverse data sets and ensures that the findings are grounded in the actual experiences and voices of the participants. The effectiveness of microcredit is considered along two distinct points of view - effectiveness from the service user's view and effectiveness from the MFI's view. The user's perspective will be the chapter's primary focus in line with the study's objectives.

The questions that need answering are whether microfinance has made better or not the household standards of living of low-income clients and their lifestyles. What factors related to the MFI's business considerations have impacted the clients? How have the business indicators of the borrowing household changed?

Also, the chapter briefly, in part, presents a summarised description of the preliminary results on the demographics and the socio-economic characteristics of the studies' participants to address the issue of context. The presentation includes numbers, tables, figures and graphs created by administering the questionnaire.

4.2 Assessing Effectiveness of Microcredit: The Context.

The field study was conducted in Ghana in 2018. Ghana was chosen to be the focus of the study because of the limited research on microfinance vis-à-vis what the research question seeks to examine. The presence of microfinance in Ghana continues to be discussed because of its role in the lives of low-income earners. Although Ghana's microfinance market share as a proportion to the whole finance market is not immediately known, the global microfinance market was valued at $178.84 billion in 2020. It is projected to reach nearly $497 billion by 2030, growing at a compound annual growth rate of almost 11 per cent from 2021 to 2030[79].

In examining the factors at the qualitative level, the study employed semi-structured interviews with the staff of the OISL at different local branches. The staff interviewed include managers, loan officers and field supervisors at the local offices. As earlier mentioned, the interview seeks to explore the factors that the MFI considers to be favourable or adverse to the impact of microcredit on the living conditions of low-income earners. The issues arising on the clients' (demand) side are distinguished from those arising on MFI's (supply) side.

The OISL was selected for the study because of its significant presence in the country and the accumulated expertise in development work through microfinance in Ghana. A purposive sample of 20 employees from the Greater Accra Region area was selected to participate in the

[79] Allied Market Research (2022) - https://www.alliedmarketresearch.com/microfinance-market-A06004

interview. Each interview lasted about 30-45 minutes, depending on additional comments or responses from the researcher or the respondents.

It is worth noting that the interview provided the study with a pool of primary data that helped the researcher to make an informed analysis. The interviews asked questions on the microfinance schemes: goals, implementation and challenges, households' access to microfinance, uses of credit and nonfinancial services, monitoring procedures, and performance and sustainability of the MFI. In addition to the in-depth interviews conducted in the field, secondary sources were extensively examined and analysed. The secondary sources from OISL examined include the business credit policy document, orientation manual, product knowledge toolkit, annual reports, and industry analysis reports.

Again, there should be cognizant that although the discussions help evaluate the circumstances for microcredit users, this part of the fieldwork data was mainly obtained from interviews conducted with OISL staff. Most MFIs, including OISL, can set lending standards based on local conditions in Ghana. They devise appropriate loan and savings products and the related terms and conditions[80]. These include the loan amount, eligibility criteria, loan size, unit cost, maturity period, grace period, repayment frequency, margins, etc. The terms and conditions of the microcredit are determined by the suppliers (MFIs) to ensure the suppliers' financial viability. Therefore, the credit users (clients) have no control over them, although those conditions significantly influence whether or not microcredit delivers the intended benefits to users.

Some common themes are found during the interviews to be important factors related to the business considerations of the microfinance institution (MFI) with impacts on the borrower.

[80] See Table 4.1 (Product Knowledge Toolkits Extracts)

The factors identified include the financial sustainability of MFIs, required savings, training support, the comparative cost of microfinance in Ghana, and the greater provision of loans for females. Below are discussions of the collated themes.

4.2.1 Financial Sustainability

The financial sustainability of the MFI has a slightly significant and direct impact on the effectiveness of microcredit for users, as it is in the MFI's primary interests that affect the conditions of microcredit. MFIs provide small loans to low-income people who do not have access to formal financial services. This aims to finance their entrepreneurial activities and help them meet their financial requirements. However, the MFIs are placing the focus on financial and institutional success. This has affected the number of MFIs operating in developing countries. Avotri & Wereko (2016) and Muriu (2011) observed that some traditional banks had entered the industry and appeared to have grown the sector commercially, with many MFIs' attention converging on profit. While Markowski (2002) raises concerns about the trajectory taken by the MFIs on the commercial mission of delivering financial services, the author agrees with the social mission of providing financial services to many low-income earners to improve their welfare. Meantime, the MFIs seem to be drifting from the original mission of helping low-income earners. There has been more emphasis on financial and institutional performance, and the prospects of enlarging the core concept of their social objective are being traded off. The literature emphasises the argument that as financial institutions profit from microloans, similar attention should be given to compromise between social and commercial missions (Simanowitz & Walter 2002; MacFarquhar 2010).

Furthermore, the MFIs serve more than a social mission, and there has been an increasing awareness of the institutions making socially responsible investments. A preference for social and ethical considerations and incorporated financial and social objectives are sought. Some authors have argued for a workable balance between social and financial objectives as the current focus on financial objectives leads to fewer low-income earners being targeted (Renneboog et al., 2008; Simanowitz & Walter, 2002). The complexities of developing financial capability and financial sustainability[81] remain fundamental to the organisational operation, independent of an institution's position (Bowman, 2011). In MFIs (including OISL), Bell et al. (2010) note an underlying assumption that all interventions or activities contribute to the institution's mission. However, some of these programmes have a higher effect on the mission than others.

Against this background, it was discovered during the interview that the MFI (OISL) struggled to find the right balance to deliver both their social and financial objectives. For instance, it was found that many offices the researcher visited are located in and around semi-urban and market centres. Whereas this can help easy access for market stall operators, the *real* low-income earners may be missing out in the rural areas. Although concerned, a respondent justifies why OISL operates from semi-urban but expensive buildings.

> Initially, we set up local offices within the communities, but we realised that the areas have low-density populations with low economic activities. This means more offices needed to be set up, clearly increasing our overheads. Therefore, there is a need to strategically set up the current offices in semi-urban areas that are relatively expensive but can serve more local communities. Basically, this reduces our transaction costs, which helps the institution to become financially sustainable (OISL staff, Accra Central, 2018).

Another staff also stated security problems as follows:

> There are also the problems of armed robbery setting up offices in rural areas. Our local agents or workers were getting attacked either during work or when the collected deposits and savings were transported to the big towns. Lives and properties needed to be protected

[81] Financial sustainability is explained as the ability to maintain financial capacity over time (Bowman, 2011)

> and preserved. This created security issues. Hence, there is a need to have offices in big towns and cities (OISL staff, Odorkor, 2018).

The practice where low-income earners missed out supports the assertion that, evidently, MFIs only serve a small portion of people in need of such services in the world (CGAP, 2004, 2006). A reference is made by Markowski (2002), who states that, in contrast, CGAP estimates that only about 5 per cent of MFIs worldwide are financially sustainable, while the IMF (2005) suggests the figure at only 1 per cent. This is an important observation in the microfinance sector. Again, the rents charged for the office premises and other operating costs at the commercial centres are high. Havers (1996) argues that the MFIs should cover the cost of funds, operating costs and other related costs with the income it receives from fees and interest to achieve financial sustainability. However, the observation from the interview created the impression that these costs are then indirectly passed on to the service users. This is in addition to interests and other costs already being paid. A respondent seemed to confirm the above as follows.

> The cost of operating from these offices is undeniably high, and the business tries to absorb most of the cost. Nevertheless, we also have the institution's financial sustainability to consider, and the cost is somewhat shared. This makes it difficult for us to offer cheap credits (OISL staff, Lapaz, 2018).

Although, Morduch (2004) notes that microfinance's fundamental promise is to achieve sustainability and financial assistance for low-income earners. By incorporating both objectives, financial returns can potentially be ultimately increased (Pawlak and Matul 2004; Imp–Act 2004). However, indirectly passing on the additional cost to the borrowers does not enable a conducive environment to use microcredit effectively. Again, instead of saving for the future and reinvesting into the businesses, borrowers may use the profit to repay loans.

In the course of the survey, the MFI highlighted additional financial sustainability constraints which merit consideration. These constraints encompass effective risk management practices, such as credit, market, and operational risk controls. According to Churchill and Frankiewicz (2006), these practices are fundamental for minimising potential financial disruptions. The authors further explained that in order to address the challenges of growth and sustainability, MFI managers must not only grasp essential management functions but also be equipped with innovative ideas and strategies to thrive in today's increasingly competitive landscape. Another constraint observed during the fieldwork that the MFI faced is the issue of limited funds or grants, which reduces the effectiveness of the funds lent to borrowers. During a recent discussion with Humentum[82], a panel agreed that restricted grants pose a significant challenge to financial sustainability. They observed that when donors allocate funds for specific activities with all funds intended to be spent, the coverage for indirect costs becomes very low. This situation puts a strain on basic operational expenses such as rent and salaries. They further explained that the challenge becomes even more complex when the MFI transitions from being a grassroots organisation to an established institution. Another issue observed is regulatory compliance and strong governance practices, which are essential for the functions of the MFIs. Adhering to regulations is crucial for avoiding legal penalties and upholding stakeholder confidence, as proposed by Ledgerwood (2013). Moreover, the authors emphasised the importance of consistent revenue generation, necessitating the diversification of income streams and establishing appropriate interest rates and fee structures that cover operational costs while remaining affordable for clients. The survey findings revealed a trade-off between securing a source of affordable income streams and determining suitable and affordable interest rates and fees for the borrowers. The combination of these elements establishes the framework

[82] Sullivan (2023)

for financial sustainability. Nevertheless, each component possesses distinct limitations and needs to be carefully managed to ensure the establishment of a comprehensive and sustainable organisation. These constraints increase hardship on borrowers, leading to limiting the loan's impact, which may not improve the standards of living of beneficiaries. Therefore, inasmuch as the MFIs consider sustainability a priority in discharging the fundamental missions, the benefit to the service clients is inadequate. This means that the above does not better or improve the standards of living of the borrower.

4.2.2 Required Savings

The MFIs require the borrowers to open micro-savings accounts with the institutions in the microfinance interventions. The MFIs emphasise savings as the option for prospective borrowers who want to improve their assets but only have a limited income to spare. It enables them to save even small sums of money over time to gain financial stability in the long run. Nonetheless, in real terms, the benefits of saving are seen from the perspective of the MFI because the loan's interest is charged on the full loan, but the service clients are given only 90 per cent, with the rest deposited as savings. Additionally, the perceived small or lack of interest in savings only benefits the MFI, not the service clients.

The micro-savings accounts function similarly to traditional savings accounts, except that specific fees are waived. No minimum balance requirement exists, and only small deposits are allowed (Kagan 2020). Savings[83] can mean different things to different people, but for the study, it is described as setting aside a specific amount of money for future use in exchange for a series of current savings. Savings allow low-income earners to gain stability and risk protection and increase their productivity. Perhaps the accumulated savings are required to

[83] Disposal income less consumption

expand the capacity of the low-income to meet individual lifecycle, crisis and business needs. Over time, this serves as an impetus for their freedom from the hooks of poverty.

During the researcher's fieldwork, it was made known that the micro-saving being practised by the MFIs is grouped into two kinds: voluntary and compulsory.

> The loans given to the individual beneficiaries are not secured against any collateral. Instead, we encourage prospective and current beneficiaries to save with us. Whereas voluntary savings are optional, compulsory savings are required to process and approve initial or continuous applications (OISL staff, Odorkor and Accra Central, 2018).

Voluntary or flexible savings is a facility made available to both loan borrowers and non-borrowers. This type of savings (for borrowers) is based on the premise that the service clients' financial freedom cannot be guaranteed solely through micro-credit and, thus, the need to save. Although the savers already understand why and how to save, savings should be considered a key component of financial intermediation (Khachatryan 2013). The voluntary savings in OISL come in diverse forms, such as the daily *susu*[84] and fixed deposit accounts. The OISL representatives explained that this helps cultivate the habit of saving in the communities and having access to uncollateralised loans at affordable rates when needed. It was found that savings offers a less expensive source of funding, improves borrowers' ability to repay loans, and is also likely to help MFIs maintain their financial viability. It also acts as a credit screening tool to assess whether prospective borrowers are creditworthy (Khachatryan 2013). This is consistent with the belief that the financially excluded, the low-income primary means of establishing a livelihood is through *susu* (World Bank 1994 cited in Avortri & Wereko 2016).

[84] A popular scheme for savings mobilisation and financial management in Ghana. It is devoted to the daily collection of small deposits from low-income communities who otherwise would not have access to the traditional banks.

This practice is seen as a critical funding source for Ghana's rural and urban low-income entrepreneurs (Alabi et al., 2007).

Compulsory savings is the second form of savings that the OISL adopts. The service clients are required to deposit 10 per cent of the loan in their savings account. This type of savings is often mandatory in place of collateral (Boachie 2016). Compulsory savings are funds linked to credit access through a mechanism that locks a portion of the funds advanced to the service clients in a savings account (Boachie 2016; Ledgerwood 2002). During the interview, a critical observation revealed that the OISL uses compulsory savings more as a loan product requirement. This means the institution requires prospective borrowers to have mandatory savings accounts before approving loans. The 10 per cent is an additional *cost* to the interest rate plus other charges on the loan, which suggests that the *take-home* loan amount is further reduced. It also emerged that the saving amount, timing, and level of access to deposit funds are all determined by the institution's guidelines rather than the service client's preferences. The OISL's policies show deposits are expected to be made weekly or monthly when and after the loan is disbursed, and on each occasion, a loan instalment is paid. The usual practice is, often, the borrowers are not given access to the savings while their loan is still outstanding. However, when a service client's membership is discontinued, they can withdraw the funds. The MFI may have several reasons for mobilising the compulsory saving, as confirmed in a response from a representative of the institution.

> The institution makes sure that those we give them loans can pay back. Compulsory saving gives us a sense of security to guarantee we can get our money back. It is a sort of safety net for us. ……in the unlikely event that a customer is unable to repay the loan, the savings will be used to defray part of the debt (A field supervisor, Ashaiman 2018)

In the context of the MFI, the principal goal of encouraging compulsory saving is to use it as a contingency backup guarantee. This agrees with the work of Khachatryan (2013) and

Ledgerwood (1999), which describes compulsory savings as serving as a screening method to evaluate the quality of borrowers in terms of controlling cash flow and making regular contributions.

A similar survey conducted on the service users indicated that the client instead becomes anxious that they may lose both savings in case of repayment difficulty. The study found that all the respondents (100%) have individual loan saving accounts with OISL (see Table 4.1). What the study is unsure about the balance of the savings is the voluntary and mandatory components. Nevertheless, they are required to add to the savings each time they make a repayment. The clients believe that the primary purpose of holding a savings account is to secure a loan facility. The savings may be withdrawn when they have completed their repayment. While OISL inculcates the habit of voluntary savings into their service users as a measure to combat poverty, the low rate of interest it attracts makes it unattractive. Understandably, the service users keep about just enough savings with the MFI. Instead, they prefer to invest the money in their businesses to yield a better return than the money being ‘locked away' in savings. It is worth knowing that the savings frequency shows that most (95%) of the clients have a bi-weekly savings plan, while the remaining 5% have a weekly plan (see Table 4.1). As earlier mentioned, the clients confirmed that the unattractiveness of the interest on savings was reflected on the results. The majority, 56.5 per cent of the loan beneficiaries, have less than GH¢500, while 33.5 per cent have between GH¢500 and GH¢800. Only 10% of the borrowers have more than GH¢800 as their account balance. The researcher observed that loan beneficiaries could not withdraw from their savings even in the absence of default until repayments were completed. Thus, clients are denied access to their savings in times of need. Also, it should be noted that most of these accounts offer little or no interest on savings.

Notwithstanding the positive reasons enumerated above, it was revealed during the research that there are some drawbacks to the MFIs accepting and mobilising deposits from the service clients. First, the management stated that mobilising such a small customer deposit has a high operational and transaction cost. This is true when the practice is conducted through direct sales or customer service representatives. Next, the market risk is relatively high due to the larceny and the small savings involved. This is explained below.

> OISL's savings mobilisation has been successful, although it has not been without problems. The direct sales method was a way to reach the customer with a more personal touch and indirectly observe and assess the business environment. Nonetheless, we began to experience misappropriation and street robbery, so we had to find alternatives to minimise all the risks. (OISL staff, Lapaz branch, 2018)

Some risks may emanate from the volatility accompanying interest rate fluctuations or the exchange-rate risk arising from changing the local currency price (cedi) concerning other currencies. Therefore, Khachatryan (2013) suggested that more advanced management skills are required to deal with such transactions that involve high mobilisation costs and risk, which may pose additional difficulties.

Despite the above, OISL maintains the importance of saving money is crucial. They stated it offers the account holders (borrowers) the opportunity to set aside funds even in the smallest additions to building up savings over time. This allows borrowers to enjoy greater security in life, have cash set aside for emergencies, and have a fallback should something unexpected happen. This indicates spare money for contingency.

From the perspective of the MFI, those borrowers have effectively managed the loans properly, exploring new opportunities and increasing the impact of microcredit on the standards of living. Although the credit balances in the client's account were insignificant, savings set aside for discretionary expenses create a conducive environment for taking risks or trying new things.

However, asking the borrower first to deposit 10 per cent of the loan amount and the subsequent savings deprives them of having the full benefit of the total loan acquired. Again, the near-absence of interest on the savings does not benefit the borrower's investment. Therefore, it presupposes that, whereas the savings are in the interest of the MFI, the benefits to the borrower seem insignificant. This practice suggests that offering savings facilities for the service clients may not better or improve the likelihood of microcredit being effective from the borrower's perspective.

Table 4.1: OISL Individual's Savings

	Category	Frequency	Valid Percent	Cumulative Percent
Account type	Individual	200	100.0	100
Purpose of Savings	To secure loan	200	100.0	100
Savings frequency	Weekly	10	5.0	5.0
	Bi-weekly	190	95.0	100
	Total	200	100.0	
Current Balance (GH)	Valid <500	113	56.5	56.5
	500-800	67	33.5	90.0
	>800	20	10.0	100
	Total	200	100.0	

Source: Author's computations from Fieldwork Data, 2018

4.2.2.1 Inflation and High Interest Rate on Borrower's Savings

Besides the challenges mentioned above faced by MFIs' clients in saving with the institutions, the prevailing inflation and interest rates in a country also limit the derived benefits. Inflation has been a huge problem for people with savings and investments in Ghana's current economic climate (see Table 4.2 and Figure 4.1 on Historical Inflation and Interest Rates in Ghana). Inflation significantly reduces the borrower's purchasing power of their money. Also, the money the MFIs hold in borrowers' savings accounts does not grow much as the year goes by because of the negligible or low interest rates already mentioned in the previous chapters.

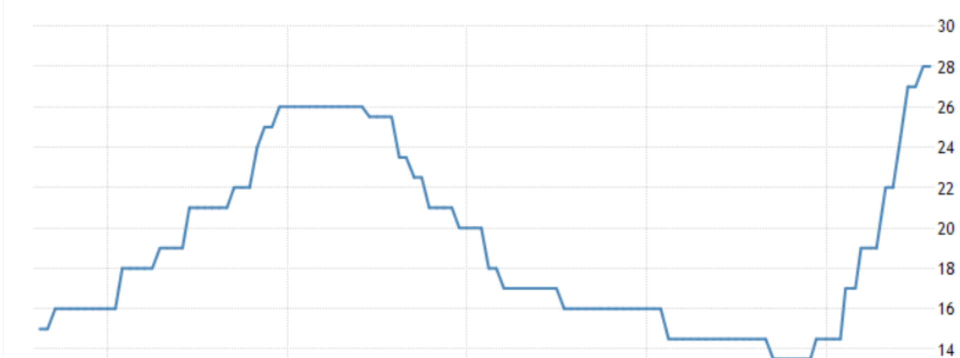
However, given the previous and current high rate of inflations shown in the table, the savings could lose value in “real” terms as borrowers could only purchase fewer goods.

Research suggests that both borrowers and lenders can benefit from inflation. For instance, borrowers financially benefit since they end up repaying lenders with money worth ‘less’ than what was borrowed in the first place (Segal, 2023). However, inflation also raises interest rates and prices of goods and services and can increase demand for credit lines, which are advantageous to lenders. Central banks, including the BoG, may raise interest rates to reduce inflation if it is rising while the economy is growing.

Table 4.2 Historical Inflation and Interest Rates in Ghana

Year	Inflation Rate	Interest Rate
2023	53.60%	28.0%
2022	13.90%	14.5%
2021	9.97%	14.5%
2020	9.89%	16.0%
2019	7.14%	16.5%
2018	7.81%	20.0%
2017	12.37%	25.5%
2016	17.45%	26.0%
2015	17.15%	21.0%
2014	15.49%	16.0%

Figure 4.1 Interest Rate Trend from 2014-2013



The interest rates on savings determine the amount of interest payments that savers will receive on their deposits. Generally, an increase in interest rates will make saving more attractive and encourage saving. However, decreasing the rates will reduce the rewards or benefits of saving and generally tend to discourage saving. Concerning the saving accounts with the MFI, as mentioned before, no substantial interest is awarded, which eliminates any benefit that should be accrued.

According to research, savings products are just as popular with microfinance customers as working capital and lending for investments. In recent years, microfinance programmes are believed to have gradually moved away from poverty lending and compulsory savings products in favour of a financial systems strategy that acknowledges the value of saving for the poor and the low income (Bass and Henderson, 2000). However, some MFIs still practise what the authors called the ‘passbook savings accounts and the sight deposits.’

A passbook savings account provides customers with a record book where they can enter their deposits and withdrawals to stay abreast of their transactions. Holders of passbook savings accounts can readily deposit money and occasionally earn interest income, but they have limited access to their deposits. There are several access levels to savings in passbook accounts, from none to a few monthly withdrawals. Some institutions have improved this service by giving some customers statements. Regarding the sight deposits product, there is no requirement for a minimum or maximum amount. Withdrawals can be permitted, but in both saving accounts, there is either no interest or the interest earnings tend to be minimal. From an institutional standpoint, collecting micro and small savings can assist MFIs in achieving financial independence and sustainability if deposit services are reasonably priced.

However, in Ghana, the pricing aspect is lacking. In reality, adding savings facilities may increase an MFI's client outreach, boost demand, and manage operating costs. An MFI can reduce capital costs and create a stable foundation for expansion through deposit activities. The perspective of the microfinance client is, however, different. A combination of primary access to cash and security are some benefits of deposit facilities over informal deposits. Low income households consider access to savings services can protect them by making them less vulnerable and giving them the opportunity for a positive real return.

4.2.3 Training Support

Conventionally, MFIs have been set up to provide small loans and microcredit to low-income individuals or groups who are generally excluded from traditional banking channels or otherwise have no other access to financial services. Critical questions have been raised if microfinance follows a minimalist approach[85] (to provide microcredit only) instead of the integrated approach[86]. According to Avortri and Wereko (2016), the latter strategy has a high operating cost. Money must be invested in other programmes that do not offer direct or immediate benefits to MFIs. Despite the cost, the MFIs, including the OISL, have diversified their services to provide the needs of low-income earners with a wide variety of training supports. These are the nonfinancial services and products offered to borrowers at various

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[85] This strategy is based on the belief that inexpensive, obtainable short-term credit is a single, final missing element for the economic growth among low-income earners, and it considers the extension of microcredit to low- income earners as a development strategy on its own (Avortri & Wereko 2016).

[86] This approach stresses the importance of offering credit and a variety of development-oriented services to low-income earners. The strategy allows the MFIs to provide a wide range of services, such as flexible money management, that are more likely to help the low-income clients to predict and plan for their financial needs than credit-only providers. It takes a broader approach to resolve the challenges that low-income people face (ibid 2016).

stages of their business needs. The training is mainly intended for the transfer of expertise or the provision of business advice. They involve providing technical assistance, health services, simple bookkeeping and business management skills. These services aim to help the service clients develop managerial and technical skills, increasing their productivity. Also, they are found to positively impact the success rate of microcredit[87].

As part of OISL interventions, they have programmes to provide nonfinancial services. According to the background of the MFI, which is a charity driven by the belief that everyone has the right to live their lives with dignity, it makes it possible to create income-generating opportunities for low-income families in developing countries. Therefore, training and education should become the foundation of the intervention. Before, during and after providing the financial services, the MFI also provides training and education to service users and regularly updates these services. A loan officer at the Lapaz branch confirmed this:

> We provide education services to ensure that the borrowers put the loans into good use and give them some financial literacy training. The training takes the form of orientation two weeks before the loan is given to them. It may be extended even after the loan has been provided, particularly when new borrowers join us. The training adequately gives them enough preparation and financial knowledge (Loan Officers at Lapaz and Ashaiman, 2018).

According to the interviews with the OISL employees, individual or newly formed groups are given a minimum of two weeks of orientation on community dynamics, business skills and health. Loan officers provide these training programmes. It was discovered that the existing OISL service users are also given periodic education, besides the initial orientation, on how to best use the extra money generated by the interventions. The service users are also taught to

[87] A comparative assessment of five MFIs in Latin America indicate that a performance varies subject to how non-financial services are integrated into usual activities, but that this diversification is possible and even appears to make a significant improvement to the quality of the portfolio.

observe basic personal hygiene and cope with diseases like diarrhoea and malaria in an emergency. The institution asserts that these services ensure a holistic transformation of service users and provide them with business and group management training when needed. The training usually takes place at the local premises of OISL on Fridays. According to the interviewees, the MFI will sometimes educate the service users about stopping contracting a disease in times of crisis, such as disease outbreaks. This confirms the results of the survey[88] conducted for the service users, where education and training were found to be beneficial when asked to mention factors they find helpful in using the loan they borrowed.

An example was mentioned at the Odorkor branch of OISL. Health personnel were brought in to educate the service users on avoiding contracting disease outbreaks like cholera. The officers believed the nonfinancial education and training they offered were necessary and beneficial. They had this to say:

> The business's responsibility is to educate its service clients on budgeting their money so they do not waste it. We teach them a great deal. Teaching them how to have good relationships with other members of the community has also been highly beneficial. During a disease outbreak, we have to work with the local health officials to ensure that our clients fully know about any outbreak to avoid spending their money to treat themselves at the health facilities (OISL staff, Odorkor, 2018).

However, the researcher observed that some of the meetings were poorly attended. Although the meeting day usually falls on Friday, a market day, to boost attendance, the staff members at the Ashaiman branch were late for meetings and seemed not to pay much attention to the training. This suggests to the researcher that the institution is more concerned with financial

[88] Study survey indicates that 94% of the respondents (service users) stated that having accessed to such a facility improved the success rate of using the loan, while 6% said the BDS provided did not make any impact (Author's Fieldwork Data, 2018)

matters and appears to pay lip service to the provision of the continuous educational part of the intervention to a large extent. Therefore, the education provided may be limited. Again, it can also be argued that if these non-financial services, such as training, do not directly apply to how the service users apply for the loans, such training will not be relevant to them and will quickly be forgotten. It is worth noting that the interviewees mentioned disease control and business management education as the most beneficial training support services. Other support benefits to the clients were confirmed to the researcher when a manager at a local office answered a question below to explore the success and failure factors of the microfinance scheme.

> OISL does not just give money to the clients, do nothing, and expect them to pay us back. We have to put in measures to support them. That is why they have to undergo orientation on financial training before the money is given to them. After the loan is given, we visit them to advise them on simple business management and bookkeeping training. Direct and indirect visits enhance the chances of the loan being put to good use. (OISL staff, Ashaiman, 2018)

The other branch managers that the researcher interviewed later corroborated this statement. The role and the benefit of the training services in the interview support the claim that small businesses need more than just finance. At OISL, services such as training, mentoring and networking are observed and are supposed to be included at every stage of the borrowing process. The services should help borrowers overcome systemic barriers that limit effective access to finance and markets, enhancing the efficient use of the available credit (IFC 2020).

According to the authors, non-financial services have become more popular and even more diverse as financial institutions gradually see the value in providing them. According to microfinance researchers and enthusiasts, non-financial services as a complement to credit benefit both the borrowers and the MFIs that provide them. They not only improve the borrower's economic capacity to repay, but they also strengthen the relationship with the MFIs. The acquisition of new clients and a deeper engagement with existing clients, especially females, result in a fast return on these institutions' investments. These are the areas where non-financial services have a track record of success (IFC 2020; Avortri & Wereko 2016). It has been substantiated that providing training services positively correlates with repayment performance because low-income clients are better placed, and the impact may be an essential component of the success of microfinance programmes (Avortri & Wereko 2016). Therefore, it can be postulated from the above discussions that, from the MFI's perspective, the provision of training support increases the successful claim of microcredit effectiveness, which impacts low-income borrowers' living standards. However, this assertion may prove challenging when measuring from the borrower's viewpoint.

4.2.4 Comparative Cost of Microfinance in Ghana

There are costs associated when the service users access loans offered by OISL. In the context of this study, the microfinance cost relates to what the interviewees perceived as costs during interviews. The cost will be examined relative to the cost of accessing a loan from the universal banks in Ghana.

According to Cazacu and Abdraimov (2020), credit access remains a key barrier in much of Sub-Saharan Africa (SSA), with only 6.6 per cent of individuals in the region getting loans from a formal financial institution. A reason that can be attributed to this is the high cost of getting credit. As the costs and risks of providing credit rise, access becomes increasingly limited: lending becomes less profitable or even loss-making for credit providers, which the MFIs use to justify the cost of lending loans. Therefore, the cost of borrowing from MFIs is high compared to borrowing from universal or commercial banks. Ghana is no exception to the low-access, high-cost dynamic, with 11.6 per cent of the population taking out a formal loan in 2018, compared to the world average of 22.5 per cent (ibid 2020). Although these statistics may not represent Ghana's financial sectors, they provide examples to understand the composition of the cost of credit.

In comparison, the five-year average base rate, including 2018, set by the Central Bank (BoG) was at 17 per cent; the average lending rate for accessing individual loans in the universal banks was between 19.0 to 24.5 per cent[89], according to the Bank of Ghana (2021). The lending interest rate of OISL (MFI) was 48 per cent per annum. The high interest rates charged by the MFIs burdened the borrowers with being able to repay the loans with such a high interest rate. Unlicensed money lenders (known as loan sharks) charge a relatively high interest rate on loans. They can charge as high as 100% interest on the principal amount.

As mentioned above, in Ghana, the cost of borrowing from microfinance is higher than obtaining finance from traditional banks. Questions have been raised that microfinance costs to service users would instead raise their poverty levels. Still, it has also been argued that microfinance costs may positively impact service users and their low-income levels. In practical terms, the costs include charges, deductions, meeting attendance, and interest rates. For the study, the costs as described by the interviewees include the application fee (GHC 5), processing fee (3.5 per cent of the loan), insurance premium (1 per cent) and interest rates (4 per cent/month – flat rate).

OISL officer justifies the cost associated with the borrowing:

> It is widely known that higher costs than commercial banks accompany borrowing from MFIs. We face a challenge in fostering innovations that can increase productivity and lower administrative expenses, eventually lowering interest rates. However, the high

[89] The rates shown above represent the average interest rates applicable to personal loan products for borrowers as reported by the respective universal banks to the Bank of Ghana in 2018.

> administrative costs and significant high risks are the key reasons why microcredit interest rates are higher than commercial bank interest rates (OISL staff, Accra Central, 2018)

Nonetheless, it was found that OISL lacks transparency and has several hidden costs. This has been a concern the study has raised because there is a suggestion that most of the clients that the study sampled seemed not to understand and realise the actual cost of the microcredit.

Below are some additional reasons proffered for the high cost of financing microcredit.

7 Loan defaults: Lending to low-income earners carries a high risk of loan default because of a lack of a fixed income and/or jobs.

8 Administrative overheads include customer screening, loan application processing, regular repayment collection, loan disbursement, and non-repayment follow-up. It is significantly more costly to conduct many minor transactions, which also necessitates face-to-face engagement, than providing a single large loan.

9 MFIs pay a higher fee than commercial banks for the costs of funds paid for borrowed money. Most MFIs do not have much influence over these expenses, at least in the short term, and

10 Profits were required to fund future expansion and increase their capital base. (Ridder 2021, Rosenberg et al. 2009).

Armendariz de Aghion and Morduch (2005) state that the high cost confronted by microfinance institutions is usually passed on to microfinance customers, which raises the burden on them.

4.2.4.1 Interest Rates

Most microfinance institutions' interest rate strategies are infamous for lacking transparency (CGAP, 2004). To begin with, microfinance institutions, including OISL, charge flat interest rates, which means that the amount of interest charged on loan does not decrease as the loan is repaid. The flat interest rates are almost double when presented as annual percentage rates (APR).

The OISL employees in the interview admitted that the interest paid on loans is higher than that charged by conventional banks. Still, as mentioned earlier, they were insistent that it was justified. They ascribed the high interest rate to the high intervention cost. It was discovered that OISL typically charges a monthly flat interest rate of 4 per cent (48 per cent/annum). According to the staff, the flat interest rate of 48 per cent is applied to the loan amount, and the total is divided by the number of repayment instalments. However, the APR charged is relatively higher due to the associated loan transaction costs, such as processing fees. When asked if the borrowers know the interest charged, the response suggests that the service users appear to have limited knowledge of the interest they pay.

> We are obliged to let the borrowers know the rate of interest. However, I must admit that some of them lack the financial literacy to fully understand its application's intricacies. In such cases, they are more concerned about the ability to make bi-weekly repayments. (A loan officer, Circle, 2018).

There seems to be a lack of transparency in the rates of the interest rates charged. The researcher could not independently verify the level of interest that service users pay. The high level of financial illiteracy among the service users also indicates that they cannot grasp how much interest rate they paid. Meanwhile, studies show financial education can lead to positive behaviour change and entrepreneurial success (Gray et al., 2009).

Perhaps the rural low-income earner's conception of interest rates explains why they are happy with the high interest rates. Several studies have found that microfinance users are unconcerned about high interest rates without examining why this is so (Dehejia et al., 2005). Perhaps this is so because the borrowers may be uninformed of the actual rates they pay or the end effects.

This confirms the observation made in the data collection with the service users. Regarding the service users' questionnaires, it was noticed that the service users preferred the total amount of interest rather than the rate. When asked how much interest was charged on a loan, a service user, for example, would say the total amount of interest they paid on the loan but not the interest rate because they did not know or remember it. It seems that the concept of time in relation to interest rates was not important to the service users, although some did complain about the high cost of interest. This finding runs parallel to the observations of similar interest rate expectations in some African societies (Shipton 1992, cited in Buckley 1997:1088). Regarding interest rates, the service users of the interventions can be represented as financially illiterate. Meanwhile, given that the borrowers are under pressure to pay the original principal plus the interest rate accounting for a substantial portion of the repayment, it is possible that high interest rates worsened their already unstable situation.

According to some experts, charging high interest rates somewhat encourages the constructive use of loans by removing the false impression that loans are gifts or grants (Buchenau 2003). Besides, it stops people who do not need loans from taking advantage of loans (Hulme and Mosley, 1996). However, interest rates are unlikely to encourage the full use of loans for productive purposes since some intervention service users use their loans for other reasons. This suggests that charging high interest rates can be detrimental and, therefore, defeats the purpose of giving out the credits. In terms of excluding those who do not need the loan, the relatively high interest rate acted as a deterrent to seizing control of loans. Investigations showed that most non-low-income entrepreneurs could receive credit from traditional banking institutions at considerably lower rates. This ensures that the loan gets to its target entrepreneurs.

4.2.4.2 Charges and Deductions

As mentioned earlier, charges and deductions are more common in OISL. The interview reveals that the upfront costs and deductions reduced the amount of money available for investment. The initial savings amount appears to be unrelated to the loan amounts the service users would receive. These fees decrease the amount of money available for investment and can restrict the effectiveness of loans to help service users improve their households and businesses. The interviews also show that the upfront payment and charges can occur before one joins the scheme or at the beginning of every cycle.

A survey conducted to ascertain the cost to the borrowers for acquiring the microcredit suggests the assertion above that the availability of high loan size may prompt an expanding utilisation of credits for non-income generating activities. However, this usually attracts a high repayment burden in which the interest rate is embedded. It was revealed that more than half of the sampled respondents make payments, which perhaps seem expensive compared to the minimum amount of loan granted by OISL. Paradoxically, the MFI's audited comparative financial data[90] available to the study indicates that OISL has consistently made profits and is in good financial standing. Therefore, on the social responsibility aspect, the study finds the need for OISL to continue charging high interest rates and other deductions inexplicable. The high-cost credit covers a wide range of financial products, including microcredit, each with its own set of benefits for consumers but also with the potential for consumer harm. This harm may include a greater risk of financial problems (Bennett and McGuinness 2020). Therefore, the high cost of microfinance seems to lead to reduced consumption and reduced investment

[90] OISL Statement of Comprehensive Income for the Year Ended 31 December 2017

in clients’ businesses. This is because the funds that should be invested or used for consumption are somewhat used to fund the credit. This suggests that the high cost of accessing credit in microfinance reduces the microcredit's effectiveness and adversely affects borrowers' standards of living conditions. The cost in the form of charges is a technique MFIs use to recoup their investment for sustainability reasons. It appears to add little or none to the benefits that the microfinance borrowers, potentially low-income earners, derive from accessing loans.

4.2.5 Provision of Loans for Females.

Many arguments have been raised about microcredit institutions explicitly lending more to females than men. However, the observation is not surprising because the general perception of microfinance is about banking for females. The focus on females in microfinance was initially motivated by the practical need to ensure that loans were repaid rather than any other cause (Yeboah 2010; Johnson and Rogaly 1997). Bangladesh's Grameen Bank was one of the first microfinance institutions to work with females (Armendariz de Aghion and Morduch, 2005). The growing importance of concentrating on females has been examined by Mayoux (2002), who stated that "in the 1990s, microfinance targeting females became a major focus of gender policy in many donor agencies. The literature prepared for the 1997 Microcredit Summit, donor policy documents and NGO funding proposals all present an extremely attractive vision of increasing numbers of expanding, financially self-sustainable microfinance programmes reaching large numbers of women borrowers" (Mayoux 2002: 76). When Grameen fully stated its operation in the 1970s, it did not heavily focus on females. In the 1980s, Grameen began lending primarily to females due to their better loan repayment records. The original plan was to have an equal number of both genders, but female's repayment rates were impressive (repayment rate of 98per cent), and by the end of 2002, 95 per cent of Grameen clients were female (ibid).

Microfinance institutions have since adopted the strategy of focusing on females, and OILS is no exception. The interviews revealed that OISL targets females. In preference for any other explanation, the emphasis on females is motivated by the practical need to ensure that loans are repaid. This was confirmed in similar responses to the same questions.

> Our experience shows that female clients are more reliable borrowers than their male counterparts. Female collaboration and successful repayment records help our schemes to run smoothly. Our records indicate that their lower debts and loan default rates significantly impact our productivity and long-term viability (A loan officer at Accra Central 2018).

> Our business and its likes seem to target females because of our perception that they tend to have less participation in the labour market and are, therefore, poorer than men. …… and one should be aware that loans will not be given to anyone struggling to repay the money. There would not be a business to come to had it not been for these market women (OISL staff, Circle, 2018).

The above evidence shows that OISL may have other reasons to mainly focus on females regarding lending; the critical rationale is borrowers' repayment ability. This confirms the number of male and female services clients who had the questionnaires during the fieldwork. While female borrowers form 84.5 per cent (169), their male counterparts make up only 15.5 per cent (31) out of 200 (see Table 4.3). According to the table, married female borrowers form 65 per cent of the sample of 200, compared to 8.5 per cent of married men.

The above augments for targeting females are corroborated by empirical evidence. For example, the study of Bert et al. (2011) explored the commonly held assumption that females are typically better at credit risk management in microfinance than men. The findings show that all else being equal, a higher percentage of female clients in MFIs is correlated with lower portfolio risk, fewer write-offs, and fewer provisions. They further stated that, although focusing on females is commonly consistent with increased repayment, the interaction results indicate that this pattern is vital for organisations such as regulated MFIs. Rahman's (1999) findings at the village level in Bangladesh showed that Grameen Bank desired to target females for strategic investment and loan recovery reasons rather than to benefit the females themselves. Females were discovered to be more cooperative and responsible than men. The repayment results of the bulk of projects reported a higher repayment rate by interventions that focused on females than in mixed-gender projects, according to Rhyne and Holt's (1994) analysis of World Bank projects. Therefore, more than any other question about gender targets females to ensure productivity, sustainability, and financial results have received global recognition. In the Malawi Mundzi Fund, Hulme (1991) discovered that timely repayment rates for female clients were 92 per cent compared to 83 per cent for men. Pitt, Khandker, and Cartwright (2006) explain the rationale for focusing on females as the financial advantages accrue to households instead of men. Cheston and Kuhn (2002) find a strong and positive correlation between gender-related development indicators and the human development index. Khandker (2005) found proof of the positive effect of loans on females, which adds to the evidence of microfinance's benefits. Although several arguments have been raised about the benefits of involving and focusing mainly on females in microfinance, there are likely to be demerits to targeting females, as with any social action. When more information about the relationship between females and microfinance became accessible, the initial excitement about microfinance's positive effect on females and their families could lead to uncertainty (Mayoux 2002). The author notes that some microfinance interventions' expected benefits for females did not materialise. For instance, in Ghana, Cheston and Kuhn (2002) found that once females started earning money, they took on a larger share of household expenses, while their husbands decreased their contribution to the household's upkeep. In this way, it is suggested that microfinance can perpetuate gender inequality.

Evidently, MFIs seem to target and favour females because they appear to properly manage the loans better and have fewer repayment difficulties (see Table 4.4). This is indicative that they might have had a better return on their investments and a higher repayment rate. However, this situation can be concerning. Giving a more significant proportion of loans to females, according to the study, appears to benefit the OISL. The institution recognises females as low risk concerning their ability to repay loans. This can create unfairness and an outreach problem for men. There may be men who are low-income earners who need the loan most, but perhaps they are overlooked in preference of females. As a result, targeting females seems to be a favourable factor from the standpoint of the MFIs, but in reality, some potential low-income earners may be missing out.

Table 4.3: Participant Demographics

Demographic/socio-economic characteristics	Category	Frequency	Valid Percentage	Cumulative Percentage
Age	Valid 20-40	89	44.5	44.5

		41-60		109		54.5		99.0
		61 and above		2		1.0		
		Total		200		100		100
Gender	Valid	Male		31		15.5		15.5
		Female		169		84.5		100
	Total			200		100		
Religion	Valid	Christian		144		72.0		72.0
		Moslem		56		28.0		100
		Total		200		100		
Marital Status	Valid	Married	Male	17	147	8.5	73.5	73.5
			Female	130		65		
		Single	Male	7	27	3.5	13.5	87.0
			Female	19		9.5		
		Divorced	Male	5	13	2.5	6.5	93.5
			Female	9		4.5		
		Widow/Widower	Male	2	13	1	6.5	100
			Female	11		5.5		
		Total		200		100		
Education Level	Valid	None		27		13.5		14.0
		Primary		96		48.0		61.0
		Secondary		77		38.5		100
		Total		200		100		
Household Members	Valid	1-4		136		68.0		68.0
		5 and above		64		32.0		100
		Total		200		100		
No of Dependants	Valid	0-2		159		79.5		79.5
		3 and above		41		20.5		100
		Total		200		100		
Members in School	Valid	0- 2		166		83.0		83.0
		3 and above		34		17.0		100
		Total		200		100		
Outer Wall Material	Valid	Cement		164		82.0		82.0
		Mud bricks		24		12.0		94.0
		Woods		12		6.0		100
		Total		200		100		
Toilet type used	Valid	KVIP		74		37.0		37.0
		Public Toilet		126		63.0		100
		Total		200		100		

Source: Author's computations from Fieldwork Data, 2018

Table 4.4: Repayment Difficulties by Gender

Gender	Repayment difficulties			
	Yes	%	No	%

Male (31)	16	51.61	15	48.39
Female (169)	54	31.95	115	68.05

Source: Author's computations from Fieldwork Data, 2018

4.2.6 Government Intervention

Additionally, although government intervention is not a common theme, it is discussed because of its relevance to the study. Small and medium-sized enterprises (SMEs) underpin the African business landscape. In Ghana, for instance, SMEs have been the central backbone of the country's economy. They account for roughly 90 per cent of the business sector in Ghana, according to the Registrar General's Department, and employ nearly 85 per cent of the Ghanaian workforce. Simply put, small businesses by entrepreneurs are universally acknowledged as a crucial driver of the country's economic growth and, as such, must be encouraged to the greatest extent feasible (Amoah 2020). In their study of developing countries, Ayyagari et al. (2014) find that small businesses create the newest jobs and have the highest employment growth. MFIs drive the engine of SMEs by supporting low-income traders, investors, and micro-entrepreneurs in the form of providing financial assistance.

However, despite the benefits of the MFI sector to Africa's economy, governments on the continent have often ignored it in their discretionary expense plans. Consequently, in Ghana, for instance, many MFIs have been collapsing in recent times[91] , impacting the country's overall economy. The reasons given by the Bank of Ghana for the revocation of licences include "regulatory violations, deficiencies, and vulnerabilities which had been identified through off-

[91] The licenses of 347 MFIs had been revoked by the Bank of Ghana for being insolvent. This accounts for nearly three-quarters of the industry. Out of this number 192 had their licences withdrawn as well as that of another 155 that have ceased operation (Frimpong E. D. 2019)

site reviews and onsite examinations" (Graphic Online, 2019). Nevertheless, the efforts to rectify the deficiencies yielded no results. It was reported that this led to insolvency, with the majority of them ceasing operations and closing their offices with depositors' funds locked up. Those yet to close their offices cannot pay their depositors, putting a significant sum of their funds at risk. The government seems to neglect small businesses, while the institutions that finance them are often mismanaged because of a lack of proper supervision.

Although the current government has recognised the benefits to the economy of supporting the MFIs, its assistance appears inadequate. The staff of OISL re-echoed this.

> The government seems to appreciate the role played by the MFIs (OISL included), but not enough is provided to ensure we serve the service users well. The government needs to create a positive environment where MFIs can efficiently operate. Most importantly, the governments should maintain macroeconomic stability through appropriate monetary and fiscal policies to help the industry (OISL staff, Amasaman, 2018).

> There have been trust and confidence issues in microfinance schemes in recent times. This has resulted from the proliferation of MFIs with the imposition of less practical regulations and supervision to promote safety for depositors. This leads to losing confidence in the system, which obviously affects our operations. The system needs better structures and regulations to weed out the *unscrupulous* ones from the mainstream ones (OISL staff, Circle, 2018).

The government of Ghana (including local authorities, development funds, ministries, and other public institutions) has traditionally used credit schemes (in the name of social interventions) to transfer resources to low-income earners. The practice has led some donors and experts to ask the national governments to withdraw from microfinance due to the detrimental impact of most of these schemes. The Ghana government provides credit facilities through the Microfinance and Small Loans Centre (MASLOC). MASLOC aims to help start-ups and small businesses grow and expand through the provision of accessible microcredit (micro and small loans) and enhance job and wealth creation in the process. The government's strategy of providing credit at the retail level has not worked because some initiatives can stifle the microfinance markets. Instead of directly involving and delivering credit services, experienced donors can assist governments in building robust policy frameworks and supporting dynamic and competitive microfinance (Duflo and Imboden 2004).

Other claims include low cost of funds and political intrusion. On the former, the staff highlights the higher interest rate charged by the MFIs than traditional banks because of the high cost of funds. The MFIs have no access to low-cost funds like the banks, and therefore, the government must adjust the laws to allow MFIs to access low-cost capital from domestic and international sources. Concerning the political intrusion, it was stated that the government at different levels meddled in the governance of the MFIs. Concern was expressed below:

> The central government or its appointees sometimes use their powers to corrupt and interfere with the microfinance system. Senior managers may be pressured to lend to unsuitable clients or cut interest rates. Such involvement reduces the number of low-income customers who use services and threatens the institution's sustainable development (OISL staff, Accra Central, 2018).

From the interview, it can be postulated that in the absence of the functional and efficient roles played by the government in microfinance, the financial position of some MFIs will continue to deteriorate. This usually leads to insolvency, with most ceasing operations and closing their offices with depositors' funds locked up. As in the previous case in 2019, those who have not even closed their offices cannot pay their depositors.

Contradictorily, the World Bank (2016) reports that many government agencies are discouraged from assisting MFIs because of a history of failing to meet their repayment obligations. They further assert that many MFIs have employed underskilled personnel as managers yet failed to sufficiently train them to lessen overheads. Consequently, some critical processes are not efficiently completed. Poor appraisal of loan requisition, for example, means that credit is frequently supplied to high-risk applicants, resulting in a low recovery rate and bad debts. OISL, however, may be efficient in reducing bad debt. This, perhaps, is a result of the attention given to its risk management.

4.3 Effectiveness of Microcredit for Borrowers

In this section, I informally assess the extent to which microcredit improved the conditions for borrowing businesses and their households, using a 'before and after approach' before investigating these relationships using the econometric method. The literature interprets the effectiveness at the household level based on the microcredit's impacts on health, education, household consumption, household income, well-being, housing, and female empowerment. Therefore, the study uses similar proxies to assess how the household's living standards have changed. On the side of changes in business indicators, the study uses growth in business turnover, profits, business assets and business size. Also, there is a discussion on statistics on repayment difficulties.

4.3.1 Changes in Households' Living Standards

The study used the undermentioned measures to understand and determine changes in the borrowers' households' living standards. These are the growths in income and expenditure. The rest include how the household contributed to the cost of expenses on education, health and durables.

1. **Growth in Income per Member**

Table 4.5 gives a breakdown of the average incomes the borrowers earn in a month. It is important to note that the individual income comes from the microenterprise's income in which the borrower has invested their loans. The monthly incomes are put into sub-categories *before and after* the credit is granted. The mode, median, mean, and range were then calculated for both groups. The averages are then used to provide an overall characterisation of the income distribution when comparing the two categories. This aims to allow simple calculations and comparisons.

According to Table 4.5, almost a quarter (24.3 per cent) of respondents generated GH₵ 452 and GH₵ 678 before and after the loan categories, respectively. This provides the modal income, which describes the most frequent in the set of the gathered income data. The number accounts for nearly a quarter of the sampled population, and the change produces an increase of 50%. The difficulty of using the mode is that it appears not to provide the study with a perfect measure of central tendency when the most occurring income is farther away from the rest of the incomes in the data set.

The rest of the averages from the data are the median and the mean. Whereas the median shows GH₵498 and GH₵1131, the mean monthly income gives GH₵920 and GH₵1525 before and after the loan, respectively. It may be tempting to utilise the mean as a standard measure of the data's centre of distribution to characterise the study's earnings with a single figure for statistical analysis. The median and the mean both measure central tendency. However, atypical values, called outliers, seem to affect the median less than the mean. For instance, the incomes of GH₵6558 and GH₵15378 before and after the loan are seen as outliers that particularly affect the respondents' mean income. In this instance, using the median income as a better measure may be appropriate. The range is used to describe and understand the amount of income dispersion. The range characterises the interval that contains all the income values (see Table 4.5). This study has a broad range value that indicates a greater dispersion in the data, considering GH₵226 and GH₵15378 being the smallest and biggest income for the data. It will not be helpful to use the range to describe the data for a sample population of 200 respondents. Using the median value as the average monthly real income calculated from the data, a borrower receives an income of GH¢16.60 per day before and GH¢37.70 after the loan. Using the prevailing average annual exchange rate of 2018, GH₵4.6849[92] to the US Dollar, the above real daily income amounts to nearly US$3.50 and US$8.00, respectively. The increase in income suggests that the loans have been invested in the business, but the investment size cannot be ascertained. This confirms the literature that microfinance credit positively affects income generation and consumption level of low-income earners. However, the research findings show that the incomes exceeded the Ghana minimum wage of GH¢9.68[93] in 2018. However, the incomes obtained are insufficient to completely offset the microfinance-related debts accrued over the period. That is to say that microfinance clients have little success escaping from a credit shortage. The study finds evidence of different levels of indebtedness and loss of assets due to the inability of borrowers to repay loans.

Could this be why there is a low rate of borrower graduation to larger, more flexible loans? (Rigol and Roth, 2021). Although this is not the case in Ghana, the inability to repay microfinance loans has been linked to 'hundreds of suicides' among borrowers in India (Associated Press, 2012) and organ trafficking in Bangladesh (BBC, 2013). Concerns like these raise critical questions, such as whether microfinance enables low income borrowers to start businesses that will help them get out of poverty. As some works of literature allege, is it probable that microfinance, rather than relieving poverty, worsens it in specific contexts? (Bateman, 2010 & Karim, 2008, cited in Banerjee and Jackson, 2017). Arguably, issues like this perhaps leave the borrowers below the low-income level.

[92] https://www.investing.com/currencies/usd-ghs-historical-data

[93] The minimum wage in Ghana in 2018 reported by the WageIndicator Foundation

2. **Growth in Expenses per Member**

Table 4.5 also captures the borrowers' expenses who are the respondents to the study's questionnaire. Again, the expenses were grouped into two categories: before and after the loans. The components of the house expenses used in the study include food and beverages, rent, education, health, clothing, transport, leisure and others. The figures are measured in Ghanaian cedis. When a comparison between the two time groups is made, the averages and the range are used to provide an overall description of the distribution of the expenses using the real monthly estimates of GH₵452[94]. The goal is to make comparisons and calculations as straightforward as possible. The results of the averages are shown in Table 4.5. The table shows that the modal expenses before and after are around GH₵204 and GH₵317, respectively. The rest of the averages for *before and after* are the median GH₵181 and GH₵299, the mean GH₵189 and GH₵420 and the range GH₵2193 and GH₵11167. It is observed that there were increases after the borrowers had access to the loan for all the averages. When the median is used as a balanced description, an increase of 70 per cent in borrowers' expenses can be observed from GH₵181 to GH₵299. This means that a borrower spends more when given access to credit.

On the one hand, the results may appear beneficial from the borrower's perspective because of the availability of money to cater for needs and increase personal consumption, increasing wellbeing and living standards. On the other hand, the increase in consumption perhaps means the borrowers' continuous dependence and over-reliance on borrowing from the MFI to sustain

[94] WageIndicator 2019 - WageIndicator.org - Living Wage Series - Ghana - January 2018 - In Ghana Cedi, per month.

their lifestyle. The above results indicate that the rise in expenses may erode any beneficial gains when the loan is accessed.

The increase in expenses is due to the unproductive consumption exhibited by some respondents once they get the loan. As stated earlier, people, including low-income earners, who have competing insatiable vital needs may have the urge to ‘misuse’ part of the money to satisfy any unmet basic necessity. For instance, loans taken for business support may be ‘diverted’ to settle a personal debt or used for human capital purposes if necessary. This is evidenced in the data, which shows that many of these households have higher dependants and higher expenditures funded by microcredit. It was established that an increase in household expenditure (approximately GHC 0.16) is required when an additional person is added to the household size. Although the spending increased, these borrowers did not achieve significant profit increases. Notably, most loans from MFIs are unsecured and, therefore, have a higher interest rate than loans from the traditional bank.

3. Growths in Contributions to Education, Health and Durables

The study also finds the microcredit's ability to affect contributions to health, education, and consumer durables. Keeping in mind the national average contributions towards the above expenses, the study, again, used the *before and after* measures, as shown in Table 4.5. The table shows the household finance components that increased service users' contributions after getting the loan. The service users confirmed increases in education, health and household durables. According to the data, borrowers spent GH₵31, GH₵10 and GH₵349 on education, health and consumer durables, respectively, before borrowing. The expenses on each element were increased when the service clients borrowed from the MFI.

For instance, there was a 46 per cent increase in the spending on education to GH₵46. The increase was observed despite the tuition-free education[95] (and, in some cases, free lunch) in the government first and second cycle schools education in Ghana. The assumption was that the respondents were not wealthy enough to enrol their children in independent or private schools. Therefore, they are expected to be attending government-sponsored schools. The total monthly amount spent on all education items before and after the loan was lower than the national average, which can be as high as GH¢211. The results achieved for the study area have less average total expenses than the national average. However, it is worth noting that the data was collected a year after the free school programme was introduced, hence the big difference.

The expenses on health were increased by nearly 45 per cent to GH₵15 from GH₵10. Again, the increases come from the country's background of implementing a National Health Insurance Scheme (NHIS). The NHIS operates under a one-time premium policy, where people make one payment for a lifetime of healthcare. The policy was used to increase access to healthcare services for those "outside formal sector employment" who fall in the brackets of low-income earners, e.g. street vendors. However, some have been unable to afford the premium, and also, due to the unevenly spread benefits, low-income earners benefit less from the system. This has led a section of low-income earners to buy over-the-counter medications for common diseases.

The most significant increase was observed in consumer goods, with a 61 per cent growth from GH₵349 to GH₵562. Durable goods include home appliances such as refrigerators, tools, televisions, and other electronics; jewellery; and home furnishings. The spending results are

[95] Ghana Education Act, (2008) introduces the Free SHS (Free Senior High School) policy where the Government of Ghana initiatively introduced the programme in September 2017. This means the Government funds the cost of public junior and senior high schools for all those who qualify for entry.

consistent with the literature, which suggests that irrespective of the rationale for which the credits are given, they ultimately will be expended to satisfy unmet basic needs, as confirmed by the borrowers. The reason for spending can be attributed to the perception of a person's status or social class in society. Many Ghanaian communities perceive and equate acquiring such consumer items to the *wealthiness* of an individual. This can also be interpreted as an indicator of an individual's ability to preserve wealth by spending a proportion of their income on durable or investment goods, which can retain their economic value for extended periods.

Characteristics of Borrowing Households

Table 4.5 Average Income and Expenses of Household Members

	Average Income/Month (GH₵)	

Averages	Before[96]	After[97]	Percentage change (%)
Mode	452	678	50
Median	498	1131	127
Mean	920	1525	66
Range	6558	15378	134
	Average Expenses/Month (GH₵)		
Averages	**Before**	**After**	**Percentage change (%)**
Mode	204	317	60
Median	181	299	70
Mean	189	420	120
Range	2193	11167	410
Category	**Before**	**After**	**Percentage change (%)**
Education Expenses (GH₵)	69	101	46
Category	**Before**	**After**	**Percentage change (%)**
Health Expenses (GH₵)	22	32	45
Expenses on Durables (GH₵)	772	1243	61

4.3.2 Changes in Business Indicators

[96] The 'before' denotes incomes and expenses before borrowers applied for the MFIs interventions (loans)

[97] The 'after' denotes incomes and expenses after borrowers applied for the loans and have gone through two or more loan cycles.

The changes in the business indicators will be measured by examining variations in the growths in business turnover, profits, assets, and business size. Also, there are discussions on statistics on repayment difficulties. The data capture the results on the impact of borrowing.

1) Growth in Business Turnover

Table 4.6 shows borrowers' monthly business turnover data over the study period. According to the data, the total turnover volume before the loan rose from GH₵62476 to GH₵132783. This presupposes that investments have been introduced in the borrowers' businesses. The median before and after the loan was GH₵302 and GH₵377, with an increase of nearly 20 per cent. The study observed that some service clients could not convert the obtained credit into sales volumes; therefore, 28 per cent of service clients did not achieve increases in profits. The results showed that borrowers who achieve higher turnovers and profit increases could borrow larger loans because of relatively bigger businesses. In addition, they have a better level of education and have spent long years in their businesses. As mentioned earlier, another uncertainty and indecision by new borrowers perhaps affected growth in investments and business turnover. The downturn could be attributed to a couple of factors.

It is inexplicable to find small businesses with relatively high working capital in these businesses. This suggests that businesses with low turnover volumes sit on excess cash and other assets rather than actively spending their available resources to grow their business. Although, perhaps a considerable proportion of loans were borrowed as working capital rather than a purchase of assets. Were these micro-business owners risk-averse, although the resources were available? What contributed to their refusal to invest? Other reasons could be using loans for non-business purposes when there is a continuous withdrawal of money from the business for personal use.

1Table 4.6: Changes in Business Turnover

	Before (GH₵)	After (GH₵)	Percentage Increase
Total Volume	62476	132783	1.1
median	302	377	0.2
Mean Average	312	664	1.1
minimum	132	207	
maximum	7538	27137	

Source: Author's computations from Fieldwork Data, 2018

2) Growth in Business Profits

The study also investigated the change in profit after the loan. This section evaluates the changes in service users' ability to accomplish the desired business outcomes regarding a change in profits when they borrow from the scheme. The principal business where borrowers are involved becomes an estimated guide to the capital needed, revenue size, and the quantum of business profit made. Some businesses may probably have a higher profit and be in a superior financial situation than others. Table 4.7 shows the profits obtained before and after the loans were borrowed.

The study noted that the businesses that obtained less than the median profit had borrowed too little compared to the rest. Therefore, these businesses did not have many resources to expand their businesses. On the other hand, the businesses that achieved over the median mark were noted to have borrowed higher loans. The larger loans created the opportunity for the borrowers to buy in large quantities. Buying in bulk increases the profit made by businesses by cutting down input costs. This is possible because most service users would buy directly from the wholesalers (the source) instead of approaching the middleman who typically sells at high prices. Therefore, the results emphasise the significance of the MFIs disbursing the loans at the right times for the service users to take advantage of these market opportunities. These include the buying of low-priced inputs during the harvest season. It must be noted that a few service users who borrowed comparatively huge loans could not make correspondingly large profits compared to some of those who borrowed less. This could be attributed to the loan repayments for businesses that borrowed large loans (and have many loan cycles) that prevented them from making relatively good profits. Perhaps the reason for this is the use of loans for non-business purposes. Other causes may include the respondents' failure to keep proper records and the continuous withdrawal of money from the business for personal use.

Table 4.7: Changes in Business Profit

	Before (GH₵)	After (GH₵)	Percentage Increase
Total Profit	45086	82929	84
median	205	258	26
Mean Average	225	414	84
minimum	78	116	
maximum	4091	10228	

Source: Author's computations from Fieldwork Data, 2018

3) Business Size and Business Assets

The study asked the respondents about the size (value) of the businesses before and after the loan. Table 4.8 captures the data for the results. According to the data, the total value of all the businesses was almost doubled from GH₵433424 to GH₵856400. This is an increase of 97.6 per cent in value. The results also show an increase in the median value of more than 87 per cent, evidence that some investments have been applied. However, a critical look at the data indicated that whereas businesses that borrowed large loans had too much to repay, businesses that borrowed too little achieved less substantial growth. It was observed that these businesses borrowed inadequate loans to meet the demands of the service clients. Whether the money was invested or not because it was adequate, they still attract high interest repayment.

Concerning business assets, the data show no significant impact. One would postulate that perhaps the use of loans would have a likelihood of experiencing some positive business assets. However, the assets after the loan remain unchanged from those before the credit was obtained. A total of 199 respondents, comprising 99.5%, had no business assets before and after the loan. Instead, it is the personal consumer durables that have seen increases. This could happen when respondents know that asset finance[98] in microfinance is minimal in the microfinance context. Does this reinforce the evidence that borrowers use the loan for personal consumption instead of investing it in the business?

Table 4.8: Changes in Business Size

	Before (GH₵)	After (GH₵)	Percentage Increase
Total Value	433424	856400	97.6%
median	1809	3392	87.5%
Mean Average	2167	4282	97.6%
minimum	317	1809	
maximum	**45228**	**135685**	

Source: Author's computations from Fieldwork Data, 2018

4) Loan Repayment Difficulty

The study sought to find the monthly average repayment period during the research. It was discovered that OISL required the service users to make fortnightly repayments, and the institutions required that loans be repaid in instalments for six months. It was established that

[98] Asset financing is used to refer to the use of a business' balance sheet assets, which include short-term investments, inventory and accounts receivable. These assets are then used to secure a loan.

the MFIs would want the clients to make regular payments to finish payment within the time. Further interrogations of OISL's product knowledge toolkit extracts (Table 4.9) show that the clients are given a one-month grace period before repayment becomes mandatory.

Regarding the late payments, Table 4.10 shows that 35 per cent of the borrowers responded missing at least a repayment schedule. This is nearly half of those who have been consistent with their payments (65 per cent). The rate is more than the current default credit rate of the country's non-performing loan ratio (23.6 per cent) of the banking industry reported by the World Bank (2017) and cited by Boateng & Oduro (2018). The study describes a repayment difficulty as when a borrower fails in their obligation to make at least one repayment schedule.

Table 4.9: Product Knowledge Toolkits Extracts contained in Credit Policy Manual

FEATURES	INDIVIDUAL LOANS
Description	This is a working capital loan given to individuals for business expansion.
Purpose / Need	To buy stock/Asset
Client target market /Income Level	"Economically active clients" who are working and are self-employed- Micro entrepreneurs, Clients having a Business size of less than GHS20,000
Eligibility Criteria	Micro or small businesses at least 6 months old
Max amount	<GHC 10,000
Grace Period	1 month
Security	Guarantor mandatory. Collateral Optional. The loan instalment must equal 150% of the guarantor's monthly income. Amounts >GHC 5000 require collateral and a guarantor.
Compulsory Savings	10% of the loan
Interest Rate Type	Reducing
Interest rate per annum	79.44%
Interest rate per month	6.62%
Interest Rate Type	Flat
Interest rate per annum	48%
Interest rate per month	4.00%
Processing fee	3.50%
Application fee	GHS 5
Insurance Premium	1% of the loan amount
Repayment frequency	Monthly
Loan Term	6 to 12 months but at the discretion of Relationship Officers or client
	Subject to the discretion of Relationship Officers or Relationship Managers
Is interest paid on compulsory savings?	Yes
Mode of Disbursement	Bank Account

Table 4.10: Late Payment

	Category	Frequency	Valid Per cent	Cumulative Per cent
• **Late Repayment**	Valid Yes	70	35.0	35.0
	No	130	65.0	100
	Total	200	100.0	

Source: Author's computations from Fieldwork Data, 2018

The study made observations that may be the cause of repayment difficulties.

According to the study’s data, 36 per cent of the borrowers who experienced repayment difficulties are above the median loan value (GH₵2940). The rest of the 64 per cent were below the median value. This suggests that more borrowers who experienced late payments are under the median loan value. First, the critical assumption behind microfinance is to provide financial services to the entrepreneurial low-income to grow their businesses and gain more money. These virtuous cycle benefits can be mostly experienced if people have more income to spend, invest, and stimulate economic growth. However, the survey revealed that the initial loan disbursed was inadequate. The clients can then decide to ‘trade-off' the primary purpose of the loan and use it for other purposes or go into multiple borrowing from informal sources. They borrow amounts that will suit their ‘needs’ but may not complete what they want to achieve as the loan sizes may not match their needs and repayment capacity[99]. Besides, imperfect markets and fluctuations in economic activities in the study area restrict business expansion. In such instances, with the high cost of borrowing, the clients would have problems making satisfactory repayments for all the loans borrowed.

[99] The preliminary analysis of monthly repayments by loan size indicated that, the majority of borrowers who had difficulties to meet the repayment schedules are the service clients who borrowed less than the median average (GH¢2940) of the total loan.

Moreover, loans given to service clients are supposed to be used for income-generating activities. In reality, and as this study partly discovered, some loans are used for other purposes rather than income-generating ventures, albeit a small percentage.

Next, the repayment interval was inadequate and could lead to repayment difficulties. Service users often complain of the challenge of making frequent repayment instalments. Some economic theory literature suggests that a more flexible repayment schedule would rather benefit clients and possibly increase their repayment capacity. They note that the MFIs stand to benefit from allowing a more flexible repayment plan. This will significantly reduce transaction costs without increasing client default (Field and Pande, 2008). However, microfinance practitioners believe that the financial control forced by continuous reimbursement is necessary to counteract credit default and maintain high repayment rates (Mknelly and Kevane, 2002).

Again, the study investigated repayment difficulties based on gender. It was discovered that over 51 per cent of male borrowers, as opposed to nearly 32 per cent of female borrowers, experience repayment difficulties. (See Table 4.11).

Table 4.11: Repayment Difficulties by Gender

Gender	**Repayment difficulties**			
	Yes	**%**	**No**	**%**
Male (31)	16	51.61	15	48.39
Female (169)	54	31.95	115	68.05

Source: Author's computations from Fieldwork Data, 2018

This confirms what the OISL staff said: that females are found to be credit-worthy because they are reliable in paying the loans back and, therefore, carry less risk concerning lending.

> Our initiatives run more smoothly because of female engagement and good repayment records. In our experience, our female clients are more dependable borrowers than their

> male counterparts. Their smaller debts and nonperforming loan rates, according to our records, have a significant effect on our competitiveness and long-term sustainability (OISL staff, Ashaiman, 2018).

Another OISL staff had this to say:

> Per the records available, females are better in terms of adequately managing loans. They tend to follow the advice and guidelines from the loan officers, and most of them appropriately invest the money in profitable ventures with a healthy return on investment. I will not give my money to people, particularly men, who will misuse it. Some use the money for alcohol or even get themselves another wife (OISL staff, Odorkor, 2018).

The above statement suggested that OISL tend to lend or approve loans to potential female applicants more than their male counterparts. This raises a question and requires further investigations on the subject. Per the records, potential female applicants who become successful are inclined to manage the loans efficiently. The aforementioned indicates that the service clients who did not experience loan payment difficulties are more likely to obtain better positive business and household results than those who had difficulties. A natural consequence of having 35 per cent (70 borrowers) of service users experiencing loan repayment difficulties makes it significant and needs further investigation. Although some defaulted loans were reported to be paid back later, the researcher was not given the details.

Furthermore, since the OISL interventions used the dynamic incentive strategy[100] without extending the repayment duration, the repayment burden was expected to increase. The questionnaire's service users' responses indicated that the earnings from the income-generating activities were used as the primary source of loan repayment. When revenue from the activities becomes inadequate to repay loans, service users turn to family members, other service users,

[100] A methodology used by microfinance institutions (MFIs) where incentives to repay are generated by granting access to future loans (Shapiro 2015).

acquaintances, and informal moneylenders in rare cases. A service user is considered to have defaulted if they are unable to mobilise funds for repayment.

Although the researcher was not made aware of the actual default rate concerning the number of defaulters, it is considered low because of OISL's risk management policy and the threat of sanctions. The institution can use a court action (an option they rarely and reluctantly use) to enforce payment if substantial money is involved. This is confirmed as follows:

> If a client defaults and is unwilling to pay, we first fall on their savings (compulsory and voluntary) with us. The following line of action to enforce repayment is approaching their guarantor if they have one. We must reluctantly resort to the court to recover the money plus a percentage of the interest we demand. The court action is the last thing we want to consider, but we use it when we have run out of options. (OISL staff, Ashaiman, 2018).

The staff stated that a court action that leads to public debt disclosure brings *shame* to defaulters. They stated that this appears to achieve results in a close-knit rural community, particularly marked by strong communal belongingness. OISL staff said the following:

> The advantage some of us have is that we live in the same community as most of our clients; therefore, we know their homes and places of business. The clients know you can easily find them if they are late or default in repayment. So that helps. When they default, although it is the corporate's policy to take court action against them, we mostly find alternative actions before a redress in the court. This has worked for us over the period (OISL staff, Circle, 2018).

Other reasons for repayment difficulties experienced by services clients and enumerated included external shocks resulting from natural disasters, e.g. illness, floods, etc. and increasing loan sizes with no adequate extensions in repayment periods. Others include inadequate economic activities in the community and the disbursement of loans with less attention paid to seasonal economic and weather fluctuations. A minor yet relevant factor for repayment difficulties is the loss of business ascribable to the government urbanisation exercise.

Typically, this leaves a client's place of business demolished.[101] Although staff encourages and ensures prompt repayment in line with the business' policy, they show empathy in exceptional cases. For instance, in a natural disaster such as a flood, a service user may have their repayment period extended. This is done sparingly to ensure borrowers do not abuse it. A branch official had this to say:

> The staff must strictly adhere to the repayment policy of the institutions. This ensures our sustainability is secured in the long term. However, we also see ourselves as a *microcosm in a macrocosm,* and therefore, we cannot ignore if there is a crisis in the community. In crises such as floods, affected service users may be given the opportunity to mobilise funds to redeem their obligations. We are very conscious of how we apply this gesture to forestall any abuse in the system (OISL staff, Odorkor, 2018).

The study learnt from a loan officer who casually stated that some default service users have become over-reliant on the proceeds from the business that the loans were used. They recalled that a client he visited had used the loan to support his sick wife at the hospital. Further investigation revealed that the service user could not continue their income-generating operations during that period, resulting in financial problems. In exceptional circumstances, when a repayment period is extended, the service users still have to pay interest and other periodic payments (e.g. insurance premiums).

4.4 Is Africa Microfinance a Tweak of the Asian Model?

As mentioned, the Asian microfinance experience cannot be transposed to Africa. It was noted that the reasons are context-specific. According to the IMF, Asia is the world's fastest-growing region in financial services and has made significant progress in financial inclusion. While

[101] Data from service user's survey from Fieldwork, 2018

Asia-Pacific countries have made strides in using fintech[102] to support financial inclusion (Loukoianova et al. 2018), Africa, including Ghana, lags in technological advancement. According to the survey, some service clients (56%) answered in the affirmative when asked if they have a mobile phone with a MoMo account[103]. In Asian developing economies, the percentage of adults with a formal financial account has increased from 42% to 71% in the past decade, according to the Global Findex Database (Parvez et al 2023). The financial technology industry, commonly called FinTech, uses technology to offer financial services to reduce transaction costs. Compared to traditional finance, FinTech has the potential to increase accessibility to financial services while simultaneously lowering associated costs. The industry is considered disruptive to the existing financial sector and has the added benefit of facilitating productive resource allocation and reducing capital costs. Also, FinTech simplifies day-to-day financial management and eliminates the need for exploitative informal loan sources during unforeseen short-term shocks (Demirgüç-Kunt et al. 2015, 2018). Mobile phone financial services penetration in most Southeast Asian countries has significantly outpaced credit card or bank account penetration. For instance, around 75% of Indonesians own a mobile phone (Lim, 2022). This allows the transfer of money and making repayments, reducing the need for credit agents and clients to travel from village to village collecting or depositing tiny amounts of cash respectively. Against this background, Ghana's low income population stand to miss out on the benefits mentioned above due to comparatively low mobile phone financial services.

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[102] Financial technology (fintech) refers to the use of technology to offer financial services and products to customers.

[103] MoMo is a mobile wallet solution designed to facilitate seamless and secure online payments, offering customers the convenience of making transactions without the need to directly access their payment cards or bank accounts. The platform allows users to easily load funds onto their mobile wallet or link it to their preferred 'bank account' or payment card, providing a hassle-free payment experience.

Other reasons why Africa cannot inherit the totality of the Asian microfinance model, according to the research survey backed by the study of Nyairo (2007) and Kristof (2009), include the following. It is evident that there is a significant disparity in population density between Asian and African countries. There is a high transaction cost in African microcredit, arising from remote settlements and lack of economies of scale in carrying out monitoring borrowers' activities, thus higher risks. Also, the low population density in many remote areas in Ghana leads to lower economic growth rates, resulting in fewer opportunities for successful business investment. All of the above contribute to higher interest rates. As Daley-Harris (2007) noted, it is more convenient for a bank worker to serve 400 clients residing in closely situated villages than a similar number of clients scattered in rural areas. This explains why microfinance in Africa is predominantly urban. He noted that Uganda is currently one of the most heavily saturated microfinance countries in Africa; however, there is still a lack of strong outreach to rural areas. It is worth noting that the market power of MFIs may play a significant role in this account. Specifically, when the poor lack viable alternatives, the MFIs can charge exorbitant interest rates unless such rates are subject to regulation.

Again, to meet the demand for effective microfinance institutions (MFIs') programmes, African governments need to create a favourable environment for their establishment. In order to provide sanity and to protect the stability of the financial system, the Ghana government and other partners have recently introduced new laws[104] that hopefully will regulate the industry.

[104] After revoking the licences of several MFIs, the BoG has implemented measures to ensure the safety and compliance of these existing institutions with relevant prudential norms. Some of the measures include reviewing the minimum capital requirements and encouraging consolidation through voluntary mergers and acquisitions. There were also the measures to begin review of licensing and supervisory policies and to implement proportional corporate governance, fit and proper, as well as risk management directives (BoG, 2019)

Kristof (2009) suggested that the Asian model focused heavily on financial literacy, and loans are only made available once the education was mastered, unlike the experience in Africa, including Ghana. It was noted that some microfinance institutions (MFIs) in SSA, particularly Ghana, operate similarly to loan sharks. They charge exorbitantly high interest rates to cover their operating expenses and to allow the programmes to remain sustainable. Consequently, even after several years of receiving microfinance, clients' businesses remain small and confined to tabletops or kiosks. On the other hand, the South Asian model emphasises communal ownership of returns Kristof (2009). By observation, it was found that many MFIs in Africa function more like micro-loan banks, with the interest they generate going to wealthier shareholders in other locations.

4.5 Discussions and Conclusions

On the MFI's side, the study shows that borrowers may have cash set aside for contingency regarding the required savings as part of the loan terms. Microfinance institutions like OISL do not require collateral from their clients. Instead, they rely on a system of compulsory and voluntary savings. This practice can help save money, improve finances, and meet obligations. In order to provide good service to clients who deposit their funds with them, the MFIs must provide appropriate benefits to these clients. However, asking the service clients to deposit 10 per cent of the loan amount initially and the subsequent savings afterwards deprives them of receiving the full advantage of the complete loan obtained. First, OISL charges interest on the full amount borrowed but only disburses 90 per cent. Next, the lack of meaningful interest on savings means that the borrower's savings benefit the MFIs more than the borrower. Also, inflation erodes savings benefits over time in high-inflation countries like Ghana. This situation does not benefit the borrower and indicates that saving does not necessarily increase the likelihood of microcredit effectiveness.

The high-cost element of borrowing, which leads to a high repayment drain on the individual, shows that accessing credit in microfinance diminishes microcredit effectiveness and negatively impacts borrowers' living standards. Evidence suggests that it may be a technique for the MFIs to use to recover investment for sustainability reasons. As the costs and risks of providing credit rise, access to credit becomes more limited: lending becomes less profitable, if not even profitable, for credit providers, prompting them to look for other, more appealing investment options.

The high interest rates in the microfinance system in Ghana reflect high transaction costs, which impact overall borrowing total costs. Microfinance loans are generally smaller, which makes the transaction cost higher on a percentage basis. The transaction cost for a microcredit programme varies depending on the lending methodology and social context (Singh and Sanjeev, 2018). The study's transaction costs include financial activities such as savings and credit and non-financial activities like training programmes. The location of the client, either a remote rural area or a semi-urban area, can also affect their transaction cost. It is important to note that the client's transaction cost is a significant part of the total cost. If MFIs transfer costs to clients, it can significantly reduce the benefits of microfinance by burdening poor clients (ibid). Also, the market power factor can influence the high borrowing cost charged by microfinance providers. Since the clients of MFIs are typically poor and do not have access to traditional banking systems, they are left with limited options. As a result, the micro providers may take advantage of this situation and charge excessively high rates. Therefore, it is critical for governments and regulators to try to enhance access to finance and financial institutions to understand what drives the cost of credit.

Furthermore, the findings indicate that MFIs target and favour women because they handle loans better and have fewer payback issues. Whereas this benefits the MFI and women, it can lead to inequity and outreach problems. Men who are low-income earners may be the ones who need the loan the most, but they may be disregarded in favour of women. As a result, while targeting women appears to be a positive element from the perspective of MFIs, some prospective low-income earners may be missing out.

The data indicates that more than a third of the service clients missed at least one scheduled repayment regarding loan repayment difficulties. This rate is more than the current default credit rate of the country's non-performing loan ratio of 15.1%. The borrowers claimed that loans were disbursed at any time of the year. The study found that loans received during the lean season negatively impacted borrowers' businesses, while loans received at appropriate times led to more favourable outcomes for both households and businesses.

Clients have encountered difficulties in repaying their loans due to various reasons. The pressure on borrowers increased as they had to repay repeated loans with increased amounts but no corresponding extension to their repayment terms. The study indicates that clients either borrowed too little or too much, resulting in loans being used for either domestic consumption or unused working capital. Some may have been too ambitious, grown too fast, and faced difficulties. When the repayment difficulties were based on gender, it was shown that there were more male than female borrowers. The study observed that over 51 per cent of male borrowers, compared to roughly 32 per cent of female borrowers, have difficulty repaying their loans.

Concerning non-financial services like training support, it can be concluded that, from the MFI's standpoint, providing training support raises the successful claim of microcredit effectiveness, impacting low-income borrowers' living standard levels. The study found that training support could be redesigned to address repayment difficulties in Ghana. Although borrowers may find it hard to quantify the impact of the training on their microcredit success, this support can used to deliver financial literacy education programmes to benefit both the MFI and the borrowers. The weekly or fortnightly meetings provided a platform for service users to form social networks. They took time away from other business or household tasks. Understandably, the borrowers feel that applying the knowledge gained is the most important part of learning than just acquiring it.

Again, the challenges of establishing microfinance's financial sustainability and financial capacity have always been fundamental to the organisational function, regardless of its status. However, financial sustainability, which seems to have little direct bearing as a factor, was discovered to be significant and central to the functions of the MFIs. The MFIs recognise good financial sustainability as a yardstick for the success of microcredit. It was noted that there is some success as long as the borrowers continue to make repayments to keep the cycle running. However, success is viewed differently from the borrowers' perspective. The study notes that the MFI's practices, such as implicitly having to pass on additional fees to the borrowers, do not create an atmosphere conducive to effective microcredit use. This creates unending hardship for the borrowers. Borrowers may spend more to repay the debts rather than saving for the future or reinvesting in the businesses. Obviously, the benefits to the service clients are insufficient and do not better or expand the borrower's living standards.

The financial status of some microfinance institutions will continue to worsen in the absence of the government's functional and practical involvement in microfinance. Despite the benefits of the MFI sector to a country's economy, governments, including Ghana's, have not extended much support to the industry over the years. The MFIs reach and serve potential and current users on their own terms, inconveniences the service users, thereby limiting the impacts of microcredit to improve the living standards for beneficiaries. It is worth reiterating that the MFIs usually set the terms and conditions of the microcredit to ensure financial viability.

However, some get it wrong, which frequently leads to insolvency, with some discontinuing operations and closing their offices, locking up borrowers' funds. Again, the microfinance sector needs a well defined organised government role to reduce the unfavourable factors and eliminate the MFI's 'barriers' put in place to hinder the involvement of the borrowers.

On the changes in households' living standards, i.e., from the borrower's perspective, the study confirms that microfinance lending correlates with low-income earners' income generation and consumption levels. According to the results, there is an average increase of GHC231.00 in personal consumption when a loan is borrowed. Access to microcredit seems favourable to some borrowers because more money is available to meet demands and boost personal expenditure, resulting in improved wellbeing and living standards. Although, any benefits generated when the loan is accessed may be eroded by rising expenses.

Access to microcredit leads to growth in contributions made to health, education, and consumer durables expenses. The findings from the study show that the expenses on each of the above components were increased when the service clients borrowed from the MFI. This is the case despite the government's social intervention programmes on health and education.

On the growth in business turnover, the entire volume following the loan, according to the data, was higher than before. This showed an introduction of some investments in the borrowers' business. Therefore, it can be postulated that access to microcredit leads to a higher business turnover in the right and a favourable environment. Concerning profit growth, the data show a favourable increase when loans are borrowed and invested. The businesses that achieved much increase were observed to have borrowed higher loans and vice versa. Supporting the literature, microcredit enabled service users to make more profit not by increasing revenue only but by minimising costs by buying in bulk at a discount, at lower prices, and not having to buy on credit. However, a few businesses that took out quite big loans could not achieve similarly significant gains. This could be related to these businesses' relatively huge repayments. Also, these businesses had inefficiencies, which resulted in surplus or excess capital. There was evidence of excessive working capital resulting in idle funds that do not generate profits, leading to a suboptimal return on investment for the business.

The research demonstrates no significant impact on business assets. One may argue that using loans has a higher chance of resulting in some beneficial business assets. The business assets after the loan were similar to assets before the credit was obtained. The value (size) of businesses, however, shows growth. The data suggests the overall worth of all businesses increased by nearly doubling, evidence demonstrating that certain investments have been made. A closer examination shows that businesses that have taken out insufficient loans achieve less growth. In addition, because the microfinance programmes (microcredits) were specifically structured as development interventions, it should be noted that the interventions' mechanisms indicate that different factors and influences may affect microcredit's success.

When studying the impact of microcredit on household expenditure, the null hypothesis (Ha_0) suggests that microcredit has no effect, while the alternative hypothesis (Ha_1) suggests that microcredit does have an impact. A comprehensive survey of a sample of microcredit borrowers or service clients, focusing on themes related to changes in spending behaviour and financial management before and after obtaining the credit. The recurring themes were identified, indicating that households accessing microcredit reported increased expenditure on essential household items after borrowing compared to before borrowing. Based on these consistent findings, the study concluded that there is substantial evidence supporting the alternative hypothesis. The analysed data established a clear impact pattern, leading the study to reject the null hypothesis and confirm that microcredit impacts household expenditure. Further detailed discussions are presented in the discussion and conclusion chapter.

CHAPTER FIVE

5.0 QUANTITATIVE DATA ANALYSIS: TECHNIQUES AND FINDINGS

5.1 Introduction

The literature review previously presented in chapter two emphasises exploring the impact of access to microcredit on the improved living standard of low-income borrowers. Therefore, this chapter is designed to examine the factors that affect the success or failure of microcredit impacts. The examination will be executed by finding the size and nature of the microcredit impact on the living standard of the credit beneficiaries, as measured by household expenditures and the impact on the business performance, specifically the business turnover, of borrowing households. This will enable the study to identify the factors that enhance or otherwise the impact of microcredit on the living standard of low-income clients who borrow money from MFIs.

The contributory impact of the independent variables on the dependent variables is assessed using stepwise multiple regression[105] analysis after some relevant variables[106] are controlled. Stepwise regression is a method that iteratively examines the statistical significance of each independent variable in a linear regression model. This allows more variables to be added to the models in separate steps called *blocks,* and the method either adds the most significant variable or removes the least significant variable. The principal rationale of this method is to identify the number of variables that uniquely predict the dependent variable. That is to say, each independent variable contributes at least some statistically significant variance to the regression equation. In such an instance, it has been stated that stepwise multiple regression

[105] Stepwise multiple regression involves the selection of independent variables in a step-by-step method to be used in a final model. The technique adds or removes potential explanatory variables in succession and testing for statistical significance after each iteration.
[106] Age, Education Level, Marital Status, Gender and Household size

strategies can be beneficial in conducting multiple regression analysis (Pope & Webster, 1972). Also, it allows the study to determine the model's overall fit and each independent variable's relative contribution to the dependent variables' total variance after respondents have participated in the microfinance programmes.

The impacts of the programme results are discussed in detail in the subsequent section across the two dimensions and the relevant indicators employed in the study. This is before concluding whether participation in microfinance intervention programmes has benefited individuals on low incomes, and if so, to what extent.

5.2 Dependent Variables and their Aggregation

According to the data available from the different literature studied on the capabilities of microcredit to influence the microfinance clients' standards of living, this chapter helps examine the success and failure of microcredit in Ghana.

In order to achieve these objectives, the chapter addresses the questions: Does microcredit impact the living standards of beneficiaries, as measured by household expenditure and business turnover? What is the nature and size of the impact of microcredit on the expenditure of beneficiaries? What is the nature and size of the impact of microcredit on the business performance of borrowers?

In accomplishing the set objectives, this chapter begins with a descriptive analysis of the quantitative data in a previous section, providing a general picture of the household and business characteristics of the respondents.

This section presents the regression analyses of the variables set discussed in the next subsection. Preliminary analyses have been conducted to ensure no violation of normality, linearity, and homoscedasticity assumptions. Therefore, the study did not intend to use Weighted Least Squares (WLS), a method commonly used in large-scale surveys to ensure that the sample population accurately represents the overall population. According to Zilfimian (2020), heteroscedasticity is more likely to occur when there is significant variation in the values of the variables in the sample across different observations or when the dependent variable increases, causing the response to diverge. However, this is not a concern in this study. The thesis does not aim to represent the overall population, as microfinance operates within a small segment of the Ghanaian economy, primarily serving marginal and small rural borrowers who are not fully covered. Instead, the study focuses on a case study of a microfinance institution - OISL, targeting small rural areas to address the identified research questions. Additionally, incorporating log transformation, as suggested by Downey (2024), can help mitigate any potential issues and adjust for heteroskedasticity, ensuring that the variance of residuals remains stable. This approach will ensure reliable results while maintaining methodological simplicity and coherence, as Zilfimian (2020) emphasised.

Therefore, before conducting the regression analysis, the study carried out a log transformation of both the dependent and the relevant independent variables. Logarithmically transformed variables in a regression model are useful for managing situations where a non-linear relationship exists between the dependent and independent variables. Using the logged variables instead of the non-logged form makes the effective relationship non-linear while maintaining the linear model. In addition, logarithmic transformations are convenient methods of transforming a skewed variable into one that is more approximately normal (Benoit, 2011). Besides, the log transformation tends not to produce p-values that are smaller than they should be and produces appropriate variance of the coefficient estimates. Without the transformation, there is the potential to conclude that a model term is statistically significant when it is actually not significant.

5.3 Variables Adopted in the Regression Models

The regression estimations in this section aim to examine two sets of relationships: Household expenditure and Business turnover. The processes for estimating the relationships were done between the two dependent variables mentioned and one or more of the following independent variables. These include the Household size, Interest amount, Business size, Working Capital, Total Loans and Loan cycle. The control variables comprise Level of Education, Gender, Marital status, Number of years in business and the Borrower's age.

5.3.1 Dependent Variables

In the context of the stepwise multiple regressions conducted for this study, all variables with monetary values have been naturally log-transformed. The natural logarithms computed for the figures give the advantage of a more straightforward first differential (Gujarati 2006). Another benefit of natural logarithms is that they eliminate the outliers and that the coefficients on the natural-log scale are directly interpretable as approximate proportional differences (Gelman and Hill 2007). Unless otherwise stated, the currency unit is measured in Ghanaian cedis (GH₵). This aligns with the regulation recognising the cedis as the only current legal tender in the Republic of Ghana.

Household Expenditure

This is the real monthly total expenses of selected components in the respondent's household expenditure that was collected during the field trip. The expenses considered include food and beverages, rent, education, health, clothing, transport, leisure, etc. It has to be noted that the sample contains only households that rely on the business for which the microcredit is used. The expenditure is measured as the monthly average of the last 12 months, and the data was collected from the client in one sitting. The household expenditure figures are measured in Ghanaian cedis and are natural log-transformed.

Business Turnover

The business turnover is obtained by the real total sales generated in a year from the businesses owned by the respondents, and it is expressed in Ghanaian cedis.

5.3.2 Independent Variables

Household size

The size of the respondent's household is principally the individual or the group of people living at the same address who share cooking facilities and a living room, sitting room, or dining area. In simpler terms, the household is responsible for the financial support of a certain number of people who may or may not be related to each other.

Interest amount

The interest is the cost of borrowing the microcredit (loan) from the MFI. It is calculated as a percentage of the loan and paid to the MFI by the respondents. For this study, the loan interest has been calculated and expressed in cedis.

Business size

For this study, the business size is classified as a respondent's business's real market value (in monetary terms). This is the price a respondent's business fetches on the marketplace or the estimated value a respondent gives to their business. Again, the prices are expressed in cedis and are naturally log-transformed.

Working Capital

The study also collected the individual's real working capital, which is their business's short-term financial health. Working capital includes the sum of current micro-business assets, such as cash, accounts receivable, and inventory that is convertible to cash within a year or less.

Total Loans

The aggregates of the real value of all microcredits (loans) that the respondents borrow during their time as clients through the research period.

Loan cycle

This measures the count of the number of loans a respondent had taken from the microfinance institution until the research period.

5.3.3 Control Variables

Level of Education

This variable shows the client's level of education, measured as the number of years they have spent in school.

Gender

A dummy variable to indicate the gender of clients, measured as a female (0) or male (1)

Marital status

This specifies a client's situation about whether they are married or otherwise. The variable is measured as married (0) or not married (1).

Number of years in business

The variable indicates the number of years a client has spent on the business in which they have invested the credit and is known to the MFI.

Age

This is expressed as a discrete variable, and it is measured as an integer in units of years for clients.

The study carried out a collinearity diagnostic to confirm and determine the extent of the multicollinearity among the variables. When variables are significant to each other, a higher score of tolerance and variance inflation factor (VIF) in one variable generates a higher score in the other variable. There is much divergence in the literature regarding the VIF/Tolerance values to be adopted as the threshold for collinearity. Knock and Lynn (2012) noted the recommended values of 10, 5, and 3.3. This means that a VIF equal to or higher than the threshold value would suggest the existence of collinearity among the variables. This creates a problem for studies. Whereas Kline (1998) and Cenfetelli and Bassellier (2009) propose the cut-off values of 5 and 3.3, Hair et al. (2009) recommend an acceptable VIF value of 10. However, the authors note that "each researcher must determine the degree of collinearity that is acceptable because most defaults or recommended thresholds still allow for substantial collinearity" (Hair et al. (2009) cited in Knock and Lynn (2012:7).

Nonetheless, the most common rule of 10 related to VIF shows severe multicollinearity (O'Brien 2007), and given the above discussions, the study adopts the VIF value threshold of 5, as many studies have widely accepted it. By way of explanation, the independent variables with VIF values higher than 5 will indicate collinearity for the study.

The results of the regression analyses are presented in the tables organised below in this section. The study employed a model-building approach in the stepwise multiple regression analysis.

This is a form of regression analysis in which more variables are added to the model in separate steps called *blocks* (IBM, 2009). The idea is to first control selected variables and find whether methodically adding variables significantly enhances the model's ability to predict the dependent variable or explore a variable's controlling effect. The method iteratively examines the statistical significance of each independent variable in a linear regression model.

Therefore, the approach will show if the selected independent variables explain a statistically significant amount of variance in the two dependent variables after accounting for the control variables.

Models were constructed for each dependent variable (households and business outcomes). All results from the variables in the models are discussed, whether statistically significant or not. Nevertheless, only the direction of the relationship will be discussed for variables that were not significant.

The multiple regression equation earlier explained is represented by the equation:

$y = b_0 + b_1x_1 + b_2x_2 + \ldots + b_nx_n + e$

Where,

Y= the expected or predicted value of the dependent variable of the regression

b_0= the constant[107]

b_i's (i=1,2…n) = the regression coefficients

$X_1 \ldots X_n$ = the distinct, independent or predictor variables of the regression

e = residual value[108]

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[107] It represents the value of Y when all of the independent variables (X_1 through X_n) are equal to zero, and b_1 through b_n are the estimated regression coefficients. The individual regression coefficient signifies the change in Y relative to a one unit change in the respective independent variable.

[108] The error term, also known as the residual variable in the model, characterises the incomplete representation of the actual relationship between the independent variables and the dependent variables. As a result of the imperfect relationship, the error term is the amount at which the equation may differ during empirical analysis (Hayes 2020). It indicates the uncertainty in the model.

5.4 Microcredit in Perspective: The Nature and Size of the Impact on the Living Standards of Borrowers as Measured by Business Turnover and Household Expenditure

What is the nature and size of the impact of microcredit on the business turnover and household expenditure of beneficiaries? The section describes and analyses the significant factors of microcredit as they contribute to the impact on the living standard of beneficiaries as computed by the business turnover and household expenditure. The contextual influences on the microcredit impacts are also assessed. This tells the difference between what was supposed to be achieved (according to the literature) and what was achieved. Lastly, the chapter assesses the implications of the empirical findings for the existing literature on microcredit.

5.4.1 Business Turnover

The effects of the selected independent variables on the business turnover of microfinance beneficiaries are shown in Tables 5.1A – 5.1B. The stepwise multiple regression analysis was started with four control variables, five independent variables and one dependent variable. The age, gender, level of education of the clients, and the number of years the clients had spent in the respective businesses were used as control variables. The independent variables are total loans, interest, working capital, loan cycle and interest amount.

During the regression, one control (gender) variable was excluded from the models. The excluded variable in this context did not add further significant information to the model and, therefore, was not statistically significant.

The final model is based on three control and four independent variables that explain the dependent variable (the business turnover of microfinance beneficiaries; see Table 5.1A: Model Summary). Each successive model incorporated an additional predictor. Overall, the model has a strong correlation of around 90% and an explained variance of nearly 81%.

The first three models included the control variables: Age, number of years and education level (when r =.493) account for nearly 24 per cent of the variance in the business turnover. This means that the age, number of years the respondents' have been in the business, and their level of education are all associated with the business turnover.

Next, the stepwise model regressed the four remaining independent variables against the business turnover. It can be observed that the working capital variable with the R-value of .727 has the R^2 increased by .528. This suggests that the inclusion of working capital accounted for an additional 28.5% of the variance in turnover. The regression continued with a similar pattern with an increase in the R^2 value by .221 (when correlation, R=.865) when the total loans variable was added to the model. The R^2 values from models 6 - 7 grew by .022 and .034 when loan cycle and interest were included in the subsequent models. The inclusions led to increases in both the R (by .033) and the overall R^2 values from .749 to .805

The R-value of nearly 90.0 per cent on the last model (see Table 5.1A) indicates a strong correlation between the independent variables and the change in business turnover. According to the results, there is an individual and collective explanation of all the independent variables on the change in business turnover.

It can be observed that the stepwise analysis terminated after the inclusion of seven variables (including the control variables), which accounted for closely 81.0 per cent (model R^2 = .805) of the variance in business turnover. As mentioned previously, this signifies that the independent variables can explain significant variance in the change in business turnover. This outcome of the *p*-value achieved for each independent variable is less than the 0.05 threshold and, therefore, is statistically significant at a p-value of 0.05 (*p*-value < 0.05[109]).

Table 5.1A Stepwise Multiple Regression Model Summary of Independent Variables on Business Turnover

Model Summary[h]						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics	
					R Square Change	Sig. F Change
1	.349[a]	.122	.090	2.97673	.122	.000
2	.394[b]	.155	.124	2.92834	.033	.000
3	.493[c]	.243	.215	2.38918	.088	.041
4	.727[d]	.528	.511	2.19881	.285	.000
5	.865[e]	.749	.740	1.57985	.221	.000
6	.878[f]	.771	.763	1.54192	.022	.001
7	898[g]	.805	.798	1.50113	.034	.000
a. Predictors: (Constant), Age						
b. Predictors: (Constant), Age, No. of Years						
c. Predictors: (Constant), Age, No. of Years, Education Level						
d. Predictors: (Constant), Age, No. of Years, Education Level, Working capital						
e. Predictors: (Constant), Age, No. of Years, Education Level, Working capital, Total Loans						
f. Predictors: (Constant), Age, No. of Years, Education Level, Working capital, Total Loans, Loan Cycle						
g. Predictors: (Constant), Age, No. of Years, Education Level, Working capital, Total Loans, Loan Cycle, Interest						
h. Dependent Variable: Turnover						

Table 5.1B Stepwise Multiple Regression Coefficients of Independent Variables on Business Turnover

Coefficients[a]							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF

[109] The reason for this is both because consensus shows that this level is appropriate in many cases, and historically, it has been accepted as the standard.

7	(Constant)	8.693	.412		21.077	.000		
	Age	.013	.003	.110	4.278	.000	.819	1.221
	No. of Years	-.011	.008	-.024	-1.406	.161	.277	3.610
	Education Level	-.032	.008	-.059	-4.142	.000	.392	2.550
	Working capital	.288	.018	.412	16.021	.000	.354	2.822
	Total Loans	.584	.087	.531	6.717	.000	.821	1.217
	Loan Cycle	.326	.058	.320	5.610	.000	.469	2.133
	Interest	-.278	.109	-.316	-2.550	.000	.448	2.230
a. Dependent Variable: Turnover								

The obtained results agree with the work of Angelucci et al. (2015), Yeboah (2010), Pitt and Khandker (1998), and Banerjee et al. (2015). Others include Collins et al. (2009), Augsburg et al. (2015), Attanasio et al. (2015) and Tarozzi et al. (2015). The authors' work shows evidence of increased business activities leading to a rise in business turnover when credit is obtained.

Similar to the current study, results have been reported on various measures of proxies for standards of living (Deaton, 2012), which are increasingly standard components of impact evaluations (Karlan and Zinman, 2010). Barnajee et al. (2015) assessed the effect of microcredit on measures of investment (business turnover), business size, and profits; they found a positive relationship and statistically significant growth in business outcomes measured in its turnover. The results of microfinance interventions on households and businesses in Ghana exhibited notable significant contributions to household and business benefits (Yeboah 2010). Although this study's research technique and parameters differ from Yeboah's, both were completed in Ghana. The study of Yeboah was conducted in the middle belt of Ghana, where there are predominantly low-key economic activities compared to the survey area (Greater Accra Region) for this study. However, both studies achieved similar results of increased turnover when respondents have accessed microcredit.

Tarozzi et al. (2015), Augsburg et al. (2015) and Angelucci et al. (2015) also reported evidence of increases in business turnover when microcredit is accessed in their respective studies. Tarozzi et al. (2015) adopted a randomised control trial in rural Ethiopia to study the impacts of increasing access to microfinance on several socioeconomic outcomes, including sales from agriculture and self-employment. Angelucci et al. (2015) measured the mean of micro-entrepreneurship, revenue, expenditures, and subjective wellbeing and found an increase in business growth in business turnover. Unlike many studies, Collins et al. (2009) collected and utilised uniformly defined quantitative evidence on microfinance clients' particular economic and financial behaviour. The study used what the authors called *financial diaries* of low-income households in India, Bangladesh, and South Africa to understand the financial lives of people living in poverty and reported an increase in business turnovers.

On the other hand, Karlan and Zinman (2009) reported a business shrink in their studies when they used the data from household and business surveys to measure impacts on credit access and several classes of more ultimate outcomes of interest in Manila. This might have arisen because the mechanism seems to be that businesses shrink by shedding unproductive workers. The authors suggested that microcredit generally works through risk management and investment at the household level rather than directly through the targeted businesses.

Although there may be minor differences in the indicators used by previous studies, they show evidence of growth in business activities measured in business turnover when there has been increased access to microcredit. This postulates that when more microcredit facilities are accessed, there is an indication that the money is invested into the business for expansion, therefore creating more business activities and opportunities in the form of increased business turnover. Besides, with investments being lumpy and with the loans being too small in themselves to start or expand a business, there is an indication that the households, in anticipation of future returns, used their own resources to top up the loan to reach several funds that were sufficient to invest in a specific minimum size (Augsburg et al. 2015; Karlan, Osman, and Zinman 2013).

Nevertheless, the results appear to contradict the work of Karlan and Zinman (2009), whose studies adopted household and business survey methodologies in the rural and urban areas in Manila to show evidence of a business shrink. This is a deviation from the *usual* trend. The different commercial focus under different circumstances, regions, countries, or contexts may have contributed to the differences between the results.

Concerning the *p*-values of the independent variables, the table (see Table 5.1B) shows that all the independent variables (working capital of products, total loans, loan cycle and interest amount) have a statistically significant impact on the business turnover. This means there is a likelihood that the correlation between the independent variables and the business turnover cannot be explained by chance alone.

The *p*-values, including $\leq .001$, support the claim of significance. In simple terms, when money is borrowed, it can be inferred that all the selected independent variables are key contributing factors impacting business turnover.

It is essential to mention that the independent variables that are significant account for a substantial quantity of unique variance in business turnover. In other words, the volume for the variance that the five independent variable scores account for explains in business turnover unique to themselves are significant.

Table 5.1B also shows the changes in the independent variables and the corresponding changes (effects) on the business turnover. Using the unstandardised beta values, the coefficients of total loans and loan cycles (58.4 and 32.6 per cent, respectively) demonstrate better positive effects on business turnover. The interpretation of their coefficients means that every unit increase in each of the two independent variables accounts for more than 58 per cent and nearly 0.33 increase changes in the business turnover. Again, clients are expected to invest the accessed loans in each cycle for business support or expansion, thereby increasing their turnover. An increase in the loan cycle numbers will also increase the loan amount borrowed by the service clients. This will affect the amount of business turnover obtained, assuming the loans are invested in the business.

Similarly, the data shows that a unit change in the working capital variable causes nearly 29 per cent change in the business turnover. This indicates that microfinance can be profitable. This means that borrowing households will benefit from a higher proportion of working capital. Therefore, it can be postulated that the higher the working capital, the better it is for household businesses. The results corroborate the studies of Angelucci et al. (2015), Copestake et al. (2001) and Collins et al. (2009), which show evidence of business growth and a significant increase in activities, including profits. This indicates that the working capital variable is crucial in determining the favourable factors to consider in enhancing the value of business turnover when the service clients borrow microcredit.

Notwithstanding the positive effect of the borrowed loans, the charged interest amount may be counterproductive. Although it is statistically significant, the interest has a negative impact on business turnover. This appears to suggest that part of the money accrued from sales is being used for the payment of interest instead of re-investing for business expansion to improve the benefits of its turnover. An increase in interest rate may increase the cost of credit services, and businesses that cannot afford high operation efficiency may find borrowing loans unprofitable. This further complicates decisions made on business expansion strategies for borrowers. This supports the studies of Nguyen (2014) and Ackah and Vuvor (2011), whose works suggest that access to credit may somewhat have a negative effect on a business's turnover and the growth of enterprises (including small businesses) because of the cost involved. Nguyen (2014) recommends that the effort to increase business activities, including turnover, should start from the enterprise's internal resources, including the owner's human capital and customer relationship development, rather than external financing. They stated that some enterprises' reliance on external financings, such as microcredit, proved counterproductive. Small businesses that access microcredit face high interest rates and short repayment periods, making it very difficult for the businesses where the loans are invested. Therefore, it is suggested that getting money from outside the business (even if it is easy) may not be a good strategy.

Among the statistically significant variables, the data from the standardised coefficients (also see Table 5.1B) indicate the scale of the effect of the independent variables on business turnover. The data indicates that the total loan with the highest value of .531 has the most significant effect on business turnover. This is followed by working capital/average with a value of .412. The next variables to follow are the loan cycle (.320) and the interest (-.316).

5.4.2 Household Expenditure

Similar to the business turnover, Tables 5.2A – 5.2B show the results achieved when the control variables and household size, turnover, and total loans (independent variables) are regressed against the household expenditure of microfinance beneficiaries. Again, stepwise multiple regression was used for the analysis. During the regression, two control variables (the gender and level of education of the respondents) were removed from the models. This means that although the two are control variables in this context, they did not add further significant information to the model.

The final model shows the remaining variables that can explain the dependent variables (household expenditure). Each of the successive models includes an additional predictor. The model shows a good correlation (R > 82 per cent) and an explained variance of nearly 68 per cent.

The first model included marital status. The **R** (the correlation coefficient) measures the strength and direction of the linear relationship between marital status and household expenditure. The **R** value of 0.376 suggests a moderate positive correlation, indicating that changes in marital status can be associated with changes in household expenditure. This accounts for 14.2 per cent of the variance in household expenditure, which is measured in cedis. In other words, the marital status of borrowers explains 14.2 per cent of the variability in household expenditure. This shows that, although a control variable, the marital status of the respondents affects the expenditure incurred in the household.

The next three models in the regression included the household sizes, the turnover and total loans as independent variables. When R is nearly 60.0 per cent, the respondents' household size accounts for more than 21 per cent of the explained variance in their expenditure. Again, adding the business turnover increases the R and R^2 values to .752 and .563, respectively. This means that the turnover explains nearly 21.0 per cent of the variance observed in the expenditure. It can be realised that the analysis terminated after including total loans. Total loans explain more than 11 per cent of the change in household expenditure when the correlation is over 82 per cent and the R^2 is about 68 per cent.

The overall values of the R and R^2 on the last model (see Table 5.2A) show a correlation between the independent variables and household expenditures. Therefore, according to the results obtained, there is an individual and collective explanation of all the independent variables on the change in household expenditure.

According to the results, the analysis stopped after adding the fourth variable. It collectively accounted for more than 68 per cent (model R^2 =.675) of the variance achieved for the household expenditure of the loan beneficiaries. It is observed from the results that the regression is significant (p-value < 0.05), and this can be interpreted to mean that the independent variables can explain a significant amount of variance in the change in household expenditure. In other words, the overall regression is statistically significant at a p-value of 0.05. Thus, it can be postulated that the predictors (independent variables) are able to account for a significant amount of variance in household expenditure.

Considering the values above, it can be concluded that access to microcredit influences household expenditure. This confirms that the beneficiary households increase their spending on other *necessities* besides their spending on their micro-businesses. The results are consistent with the studies of many authors in the literature. Many of the findings strengthen the evidence found in the context of microcredit increased levels of business activity and household expenditure.

Table 5.2A Stepwise Multiple Regression Model Summary of Independent Variables on Household Expenditure

Model Summary[e]						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics	
					R Square Change	Sig. F Change
1	.376[a]	.142	.124	3.63732	.142	.000
2	.597[b]	.356	.343	1.33441	.214	.000
3	.752[c]	.563	.554	1.16469	.207	.000
4	.822[d]	.675	.668	1.07532	.112	.000
a. Predictors: (Constant), Marital Status						
b. Predictors: (Constant), Marital Status, Household size						
c. Predictors: (Constant), Marital Status, Household size, Turnover						
d. Predictors: (Constant), Marital Status, Household size, Turnover, Total Loans						
e. Dependent Variable: Expenditure						

Table 5.2B Stepwise Multiple Regression Coefficients of Independent Variables on Household Expenditure

Coefficients[a]								
Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
4	(Constant)	4.356	.361		12.073			
	Marital Status	.393	.110	.306	3.567	.000	.614	1.629
	Household size	.157	.036	.373	4.392	.000	.629	1.591
	Turnover	.434	.082	.396	5.302	.000	.686	1.458
	Total Loans	.286	.086	.229	3.337	.001	.469	2.133
a. Dependent Variable: Expenditure								

The results subscribe to the studies of Adjei et al. (2009), Pitt et al. (2003), Pitt and Khandker (1998), Banerjee et al. (2015) and Collins et al. (2009). The study of Adjei et al. (2009) evaluates how MFI in Ghana has contributed to poverty reduction among rural and urban poor, especially females, by supporting them with small loans to expand their businesses. Adopting similar variables[110] to the current study, they reported that participation in the microfinance programme significantly improved clients' standards of living through increases in household expenditure.

Pitt et al. (2003) and Pitt and Khandker (1998) concluded in their studies that access to microfinance gives rise to significant and greater impacts on household expenditure. Using a similar quasi-experimental approach, both studies in rural Bangladesh established that microcredit programmes positively impact households' wellbeing through spending. That is, household expenditure increases when there is access to microcredit. The study of Barnejee et al. (2015) adopted the borrower, loan, and lender characteristics to identify the causal evidence of microcredit impacts on borrowers and debates about its effectiveness as a development tool.

[110] Household income, business outcome results, household characteristics (such as age, marital status, level of education and household size), village characteristics etc

Using econometric strategies to explain the results, it was found that some "consumption expenditures, which is a widely used proxy for living standards" (ibid:12) increased in expenditure structure. However, the study of Collins et al. (2009), who adopted uniformly defined quantitative evidence on microfinance clients' peculiar economic and financial behaviour, suggests the increase was only observed in child education and health care.

Meanwhile, the current study shows conflicting results to the work of Angelucci et al. (2015) and Tarozzi et al. (2015), who find no evidential effect, while Augsburg et al. (2015) instead report a negative correlation between microcredit and household expenditure. This appears to be incomprehensible. This may imply that households may need to make lumpy investments and use their funds to match those available from the loan to achieve their goal. Another reason for reducing household expenditure could be motivated by households still repaying their debt.

The data from Table 5.2B show that all the individual independent variables used in the model have a statistically significant impact on household expenditure, according to their *p-values*. Put differently, household size, turnover and total loans are all vital contributing factors worth considering in determining the variance in household expenditure when microfinance clients have access to microcredit facilities.

Parallel to the results achieved in other studies as discussed above, again, the significant scores of some independent variables explain the significant amount of unique variance in household expenditure. This means that the amount of variance that the three scores account for predicts in household expenditure, unique to themselves, is significant.

Table 5.2B also summarises the unstandardised coefficients of the variables. The data explains that there is nearly GHC0.16 increase in the household expenditure for every person added to the household size. In other words, a person increase in the household size accounts for about

GHC0.16 upward change in the household expenditure for the loan clients. This may not be surprising because as the total number in the household of clients increases, more financial resources will be needed for maintenance. Hence, there is a need for an increase in household expenditure.

A similar effect is reported for the turnover on expenditure. A unit change in the business turnover of a household accounts for more than a 43 per cent increase in household expenditure for the loan clients. This may be interpreted as the tendency of clients to spend a proportion of the turnover in expenditure. This suggests that turnover tends to increase when loans are invested in the business, increasing household expenditure. Do borrowing households directly or indirectly finance part of the expenditure from the business turnover?

The effect from total loans also shows that a unit change in the loan for the household generates a nearly 29 per cent increase in household expenditure. This may be problematic as more loans are taken because part of the loan may be perceived as being diverted for domestic use. However, the service users seem to secondarily increase their expenditure and thereby improve their standards of living. It is worth noting that the total loans for the individual households appear huge; some of the clients were in their second, third, or fourth cycles, meaning part of the loans had already been repaid.

Data available from Table 5.2B also shows the standardised coefficients, which indicate the scale of the effect of the independent variables on household expenditure. The results obtained from the analysis suggest that the primary and significant effects on business turnover are accounted for by business turnover (.396), followed by household size (.373) and total loans (.229) in the order given.

5.5 Conclusion

The chapter focused on exploring the factors that affect (enhance or minimise) the success of the impacts of microcredit on the standards of living for low-income borrowers. The standards are measured with emphasis on household expenditure and the impact on business turnover. The study adopted the stepwise multiple regression analysis. This involves selecting independent variables in a step-by-step method for a final model. After each iteration, the technique adds or removes potential explanatory variables in succession and tests for statistical significance. The basis of the strategy is to identify the number of independent variables that statistically predict the dependent variable uniquely. The idea is to control selected variables to find whether adding variables significantly enhances the model's ability to explore the controlling effect of a variable. This enabled the study to investigate, among other things, the comparative input of each independent variable to the dependent variables' total variance after respondents joined microfinance programmes.

The results are presented and discussed under the two indicators employed by the study: household expenditure and business turnover. The data from the regression analyses indicate different levels of relationships between the independent and the dependent variables.

Concerning household expenditure, the results show a good correlation of more than 82 per cent and an explained variance of nearly 67 per cent. This outcome was achieved when marital status (a control variable), household size, business turnover and total loans were used as regressors. According to the data, the household size, turnover and total loans contributed 21.4, 20.7 and 11.2 per cent, respectively, of the variance in the household expenditure of the respondents when they accessed the microcredit facilities. The results suggest the regression is statistically significant (p-value < 0.05), and this can be interpreted to mean that the independent variables can explain a significant amount of variance in the change in household expenditure.

In the case of business turnover, the results show that all the independent variables contribute at least some statistically significant variance to the regression equation when some variables are controlled. The final model has a strong correlation of close to 90 per cent and an explained variance of nearly 81 per cent. The working capital accounted for 28.5 per cent of the variance in turnover. Meanwhile, the total loans, loan cycle and interest explained 21.1, 2.2 and 3.4 per cent of the variance in the change of business turnover. Essentially, the figures propose that no less than one of the independent variables can justify the significant amount of variance in each of the three outcome variables. The outcome of the *p*-value achieved for each independent variable is less than the 0.05 threshold, and therefore, the overall regression is statistically significant at a p-value of 0.05.

Expressed differently, using stepwise multiple regression strategies, the study's findings indicate that participating in a microcredit programme leads to improved living standards, particularly with respect to household expenditure and business turnover for borrowers. In both analyses, the achieved p-value was less than the 0.05 threshold, indicating statistical significance. Consequently, the study rejects the null hypothesis (Hb0) and accepts the alternative hypothesis (Hb1) that microcredit has an impact on household expenditure and business turnover. However, the study also appreciates that correlation does not necessarily imply causation, and the data obtained in the regression could mean the impacts achieved may partly be attributed to unaccountable factors. The findings, thus, may not be as a result of microcredit alone. Therefore, one has to exercise circumspection to conclude whether participation in microfinance intervention programmes, i.e. microcredit, has benefited the low-income service clients and, if so, under which favourable factors.

CHAPTER SIX

6.0 CONCLUSION, SUMMARY AND RECOMMENDATIONS

6.1 Introduction

The thesis explored the factors that influence the impact of microcredit on improving beneficiaries' living standards in Ghana. Microfinance continues to be viewed as a critical tool for poverty reduction in many developing nations. Providing credit facilities to the household of low income social group households allows them to become microentrepreneurs. According to the literature, microfinance further develops the skills to better manage risk, save money, and ultimately break free from the poverty cycle (Owolabi, 2015). However, the literature provides much debate over whether microfinance can help people better their living standards and get them out of poverty.

On the one hand, microfinance activists such as Angelucci et al. (2015), Barnajee et al. (2015) and Adjei et al. (2009) justify its significant impact. Nonetheless, there are concerns regarding its potential to worsen the challenges low-income groups face in certain circumstances (Bateman, 2010 & Karim, 2008, cited in Banerjee and Jackson, 2017). These challenges of facing debt burdens have led to a reported increase in suicide rates and organ trafficking in certain cases rather than increasing incomes (Associated Press, 2012; BBC, 2013). In the case of Ghana, many depositors had their problems compounded because they lost their funds and job losses of 17350. This was due to actions by the Bank of Ghana (BoG) to revoke the licenses of 347 microfinance firms due to insolvency concerns[111] (Darfah 2019; Shone 2019).

[111] The Bank of Ghana explained that it revoked the licenses after identifying regulatory violations, deficiencies, and vulnerabilities through off-site reviews and onsite examinations. This has led to the closure of nearly 75% of the industry. The Central Bank has stated that it revoked licenses for 192 insolvent microfinance companies and

Obtaining market share information regarding the exact figure for microfinance in Ghana's credit system can be challenging. Nonetheless, informal credit has been a prevalent feature of Ghana's financial system for a considerable period, predating the introduction of formal regulations governing financial services (Atiase, 2018). Research in Ghana indicates that microfinance institutions serve approximately 15% of the country's population in the credit system (Dziwornu & Anagba, 2018).

Despite the debate about microfinance's relevance in the lives of low income households, there appears to be insufficient literature, particularly on factors that will make it work or not in Ghana. Both sides of the debate are so engrossed in the search for the effectiveness of microcredit that they are missing the piece of investigation for the determinants of its effectiveness. When it has worked, what factors contributed to having it worked? If microcredit does not work, what are the reasons for its failure? Hence the need for this study.

This study must be conducted to investigate a subject of utmost importance. Examining the research question with the knowledge that the answer will contribute to filling a gap in microfinance research. The research questions and sub-questions were formulated based on the relevant literature reviewed to address the problem. The research question is broken into two major questions and their corresponding sub-questions. The primary major question looks into the factors that either improve or negatively impact recipients' standard of living and business performance (turnover) with the use of microcredit. The second major question aims to determine if microcredit affects recipients' living standards of low-income earners, as

155 insolvent microfinance firms that had already ceased operations. These actions have impacted 72% of all microfinance firms operating in Ghana (Shone 2019; Darfah 2019).

evidenced by household spending. These questions have been addressed in chapters 4 and 5, respectively.

A microfinance intervention in part of rural areas in Accra whose language, customs, culture and livelihoods the researcher had considerable understanding of were chosen for the study. This is in accordance with the interpretative method and to have enough control over the data collection procedure. The thesis is summarised in this final chapter by succinctly describing the research problem, research approach, and methods used in the thesis. The primary and significant findings of the study are then presented and discussed in this chapter. The chapter finishes with a discussion of the thesis' limitations and suggestions for future research.

6.2 Summary of Significant Findings

This section aims to summarise the significant findings identified in the study. It also acknowledges the contributions the research may have made to the debate on microfinance. Lastly, the section discusses the thesis's broader ramifications. This section presents the significant conclusions regarding the questions formulated in section 1.1.

6.2.1 What factors influence the effectiveness of microcredit on the living standards of beneficiaries?

The questions asked were: a) To what extent do household characteristics account for the success or failure of microcredit? and b) To what extent do borrowers' loan and business characteristics affect the outcomes of microcredit?

This part of the study addresses the objectives mentioned above: the household, loan and business characteristics of borrowers that contribute to the success or failure of microcredit. The effectiveness of microcredit is evaluated from two perspectives: the effectiveness on the borrower and their standard of living and the effectiveness on the business performance (turnover). The borrowers' perspective was the primary focus.

The study contributes to the relevant literature in various ways. First, this research confirms existing views in the literature and advances the understanding of the use of microcredit by borrowers with low income. Secondly, empirical evidence of the study adds to the literature on microcredit concerning savings practices and recommendations on using training supports.

Using the qualitative analysis to explore the factors that influence the impact of microcredit, first, adding to the microfinance literature is a major discovery from the study findings. This is the required savings[112] demanded from the service clients by OISL. Borrowers are required to initially set aside (10 per cent of the loan borrowed as savings) for unforeseen circumstances when collecting the money. Saving can be described as putting aside money for future use and can be very useful. It is an essential component of effective money management, as it helps individuals and households manage risks, prepare for emergencies, smooth income, accumulate assets, and achieve financial objectives. One way to increase financial resources is to set aside a portion of incoming funds and reduce spending. This prudent practice can help save money and improve one's financial situation. Individuals with limited financial resources often require more money than they currently possess due to significant life events such as childbirth, education, marriage, death, or unexpected emergencies.

Furthermore, opportunities to invest in assets or businesses may arise. Savings are one of the most reliable and enduring methods of obtaining these substantial sums. Savings can

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[112] The importance and implication of Required Savings have extensively been explained under Section 6.2.2 and summarised under Section 6.4

effectively assist in meeting both anticipated and unforeseen financial obligations (VietED Group, 2018).

As mentioned earlier, OISL's savings payments are required as part of the loan terms or as a requirement for membership. Instead of collateral, MFIs, including OISL, require compulsory and voluntary savings. Voluntary savings deposits can be made before or when the loan is applied or disbursed. In the case of compulsory savings, the institution's policies, not the client's, dictate the amount, timing, and access schedules to these deposits. Compulsory savings policies can have varying deposit requirements, but OISL first demands 10 per cent of the borrowed amount and subsequent deposits made weekly or bi-weekly with each loan instalment payment. The service clients are required to top it up to improve the chances of being accepted onto the next loan cycle. Clients may be able to withdraw their savings at the end of the loan term when they choose to end their membership of OISL.

Proponents widely consider savings accounts a low-risk option for financial institutions and organisations offering them. These accounts do not require any upfront costs or credit checks, making it easy to enrol new account holders. Additionally, savings accounts serve as a valuable screening tool for potential microcredit applicants. Consistent deposits made by account holders demonstrate their creditworthiness, increasing their likelihood of securing a loan. With a micro saving account, account holders can experience numerous benefits, including fund security, insurance coverage for unexpected events, convenience, and access to liquid assets for other investments.

Considering the above uses, microfinance institutions (MFIs) must ensure that their clients who save with them receive appropriate benefits and incentives. This serves as a means of promoting financial inclusion and helps foster a sense of trust and reliability between the clients and the MFIs. Therefore, it is crucial for MFIs to carefully design and implement savings products that offer attractive interest rates, flexible withdrawal options, and other value-added benefits that meet the diverse needs of their clients. While OISL offers some of the benefits mentioned above to its clients, a key benefit, interest, on the borrowers' savings is not paid. The study observed that the service clients were ignorant that their savings could benefit from the Ghana average savings deposit rate of 13.50 per cent.

Apart from the already high inflation rates prevalent in the country, borrowers may also have to bear the brunt of the value of their savings depreciating significantly by the end of the loan term. This can cause considerable financial stress and impact their financial stability in the long run. The OISL present savings scheme lacks meaningful interest earnings, leading to the microfinance institutions (MFIs) as the sole beneficiaries of the setup. This situation implies that the service clients, who are primary stakeholders, are not receiving reasonable returns on their investment, while the MFIs are profiting from the arrangement. They seemed to have a free source of funds through savings deposits. The benefits appear insignificant and reduced from the borrower's perspective. Also, it is worth mentioning that the borrower could not withdraw from the compulsory savings facilities while they were with OISL, and the contribution burden accounted for the severe loan repayment pressure they experienced.

Additionally, it is discovered that the 10 per cent compulsory savings demanded by OISL first deprived these borrowers of receiving the full benefit of the loan obtained. This is against the backdrop that the MFI charged an interest rate on the full borrowed amount. Practically, the microfinance institution charges interest on 100 per cent of the loaned amount but gives the service client only 90 per cent. It can be construed that such practice is not in the beneficiary's best interest as it could be deemed exploitative. From the perspective of the MFI, the savings enable the service clients to save over time to gain financial stability in the long run, but in reality, it does not favour the borrower. Although savings can be useful, the explanation infers that savings can reduce the complete effectiveness of borrowed credit. This leads to the absence of a better or improved likelihood of microcredit being effective in enhancing the borrowers' standards of living. This is unique in Ghana's context and contributes to microfinance literature.

The next finding, the financial sustainability of MFIs, is likely due to their previous savings practices, as evidenced by the study's findings. The study established that, irrespective of its reputation or position in an environment, the sustainability and financial capacity of the MFI have always been significant. The central focus of an MFI's function has been its sustainability, despite having little direct bearing as a factor on the borrower.

This aligns with the study of Remer and Kattilakoski (2021), who observed that MFIs are encouraged to take cost-management measures to improve their institutional capacity and reach operational self-sufficiency. It may not be surprising as many SSA MFIs underperform and struggle to stay in business (Chikalipah, 2017). In their study, Remer & Kattilakoski (2021) found that Africa had the highest percentage of unsustainably performing MFIs and portfolios at risk compared to other regions, including East and South Asia, Eastern Europe, Latin America and the Middle East. In a location where poverty is prevalent and pervasive, MFIs recognise good financial sustainability as a criterion for microcredit success. According to the study's data, this could be why the MFI needed to find different funding sources (for instance, mandatory savings from borrowers) to keep the institution's operation going. During the fieldwork, it was noted that the official at the OISL could measure success as long as the borrowers continued to make payments, which is viewed differently from the borrowers' perspective. The sustainability of OISL rather piles more pressure on the borrowers because the organisations subtly pass on the costs to the borrowers to ensure that the business's going concern is achieved. The hardship the borrowers face to repay their loans seemed to matter less to OILS. Although this practice aims to reduce the risks of the MFI and ensure absolute sustainability, on the one hand, it brings difficulties. It reduces the effectiveness of credit and does not improve the borrower's living standards.

Another discovery that contributes to the literature is the discussion on repayment difficulties, which, in Ghana, can be uniquely addressed with the training support offered by OISL. According to the study, when repayment difficulties were classified according to gender, male borrowers outnumbered female borrowers. The study showed that more than 51% of male borrowers have difficulty repaying their loans, compared to roughly 32% of female borrowers. Studies have shown that females tend to have better credit scores and are more conscious of their credit than men. This finding may be due to social and personal expectations for responsible repayment and a higher level of self-monitoring among females. In general, more than a third of the borrowers of OISL had loan repayment difficulties and, therefore, missed at least one scheduled repayment, which is higher than the country's non-performing loan default rate. Ghana has a non-performing loan of 15.1%, which is one the highest in the region. Countries with the highest rate in Africa include Equatorial Guinea 55.1%, Chad 26.0% and Comoros 23.7%. The rest are the Republic of Congo and Algeria, which have 16.9% and 16.4%, respectively[113] (World Bank, 2023).

Nevertheless, Ghana's MFIs have achieved low non-performing loans despite charging high interest rates. It contrasts other countries within the Sub-Saharan region and highlights why it has been branded as a success story. It was discovered in the study that although the loan size was a factor for a positive increase in business growth for borrowers, it also affected the expenditure. In a normal bell-shaped distribution curve, the service clients found around the

[113] https://data.worldbank.org/indicator/FB.AST.NPER.ZS?most_recent_value_desc=true

asymptotic tails who borrowed too little and too much were observed to face repayment difficulties. When a borrower defaults, the institution's policy is to take court action. However, alternative actions may be taken in exceptional circumstances. In such cases, the MFI may consider extending the repayment period while maintaining the requirement for interest and periodic payments (e.g. insurance premiums) to prevent system abuse.

The findings showed that a third of the borrowers with repayment difficulties could be attributed to many reasons. First, the service clients who borrowed too little and needed a lump sum for their investment instead used the borrowed money for domestic consumption. Making loan repayments can be challenging without a dependable source of income after consumption. This argument agrees with Barnes et al. (2001), whose study established that significant borrowing positively affects most borrowers' wellbeing. Nonetheless, the impact is not significant on a number of service clients with small businesses and funds who had to sell assets to make loan repayments.

Secondly, there was an indication that the initial favourable outcomes that accrued to the service users improved with increases in loan size, but above a threshold, the advantages began to decline as the loans got larger. This explained why a few businesses that took out much larger loans perhaps could not achieve similar significant gains. They might have been overambitious, outgrown too big too soon, and encountered difficulties. Again, the study also noted that repeated loans (loan cycle increases) that seem to increase the loans borrowed without adjusting the time for repayment added a strain on the service users' ability to meet repayment schedules. It was discovered that the dynamic incentives strategy was used without matching an increase in repayment period or an assessment of the capability of service users to repay loans. Therefore, it was discovered that most borrowers with difficulties in repayment have many loan cycles. Also, in comparison, it was found that the service clients at both extreme ends of the distribution curve had either low or high profits, respectively. The service clients who borrowed too little failed to meet their repayment obligations because of their inefficient handling of the resources; conversely, the second group achieved more positive outcomes; however, they encountered payment obligation challenges due to very high repayment commitment.

Furthermore, it was noticed that some of these businesses have excessive amounts of debt compared to their cash flow from operations. These small businesses often struggle to make interest and loan payments. As a result, they cannot meet their operational expenses due to the high costs associated with the large loans. This creates a poor financial cycle where the business is forced to take on more loans to survive, worsening the situation.

Small loan amounts and short terms typically characterise microcredits, though the term can vary depending on the MFI. Microcredit provides a lump sum the borrower pays back with interest via regular payments. The loans can be a helpful option for startups, becoming self-employed, growing small businesses, or businesses facing credit access challenges. Based on the study's results, it is imperative to achieve the optimal balance regarding the amount of loan that small businesses require and the terms under which it is provided. This is necessary to ensure that the loan is utilised efficiently and effectively.

OISL provides training support, which, from their perspective, improves the successful appeal of microcredit effectiveness and, in turn, affects low-income borrowers' living standards. The study observed that the training support (a non-financial service) could be uniquely redesigned to address the repayment difficulties in the Ghanaian context. Although the premise of finding it difficult to quantify the training support when viewed through the eyes of the borrower and also tell how much of the training contributes to the success of microcredit, it can benefit both OISL and the borrowers. First, the training services can be focused on building borrowers' basic money management skills and improving financial literacy. The training can explore various finance topics such as understanding interest rates, the concept of cash flow, financing agreements and savings accounts knowledge, budgeting skills, and debt management techniques. Findings from studies on financial literacy training show that increases in skills and knowledge were kept and used to enhance borrowers' financial circumstances.

Additionally, financially literate borrowers are better at timing the market (Guiso and Viviano 2015; - Meraz et al. 2013). Studies indicate that increasing financial literacy and people's capacity for making their own financial decisions would improve the results of financial inclusion and other efforts to reduce poverty because financially literate people can demand and effectively use beneficial financial services such as savings and microcredit (Refera, Dhaliwal & Kaur 2016). Participants acknowledged that learning how to apply what they have learned was more vital than simply gaining knowledge.

A study finding that collaborates with the literature established that females formed the bulk of the borrowers of MFIs and are the main beneficiaries. OISL is not different. The MFI believes that the gender of the borrower could be a factor in whether a borrowed credit works better or not. The institution ensured this when they lent most of their loans to females (seen as 'vulnerable' community members) to improve their living standards and empower themselves. The loan officers stated that females are preferred because they tend to effectively manage loans by following advice and investing in profitable ventures with a good return on investment. The number of females making up the majority of the borrowers agrees with the work of Kabeer 2001, Pronyk et al. (2008), and Pitt et al. (2003). The studies of these authors conclusively demonstrated that microcredit is an effective tool for females to attain control and ownership of their lives. They suggested that females possess the ability and skills to manage risks better. They further showed that giving credit to females significantly impacts their economic well-being, health and other related factors. However, this statement may serve as a strategic communication method aimed at creating a positive public perception of MFIs. Based on the evidence gathered, it can be the case that OISL favours females because the data suggest that the females had a higher repayment rate and fewer payback issues.

Conversely, males were unreliable regarding repayment and, therefore, were often overlooked. To clarify this argument, OISL appears to favour lending to those with the highest ability to repay rather than those with the greatest need for the loan. While focusing on females may benefit the MFIs, it could inadvertently exclude low-income males. The above observation leads to the question of whether the exclusion of low-income males is prevalent. In other words, promoting microfinance as a pro-female endeavour may encourage the exclusion of male microcredit participation. The gender gap in the data on people's involvement during the study clarifies this. This is also consistent with the claim that microfinance is unlikely to alter the gender norms that currently exist, according to Hulme and Mosley (1996). Nevertheless, this shows how microcredit has been integrated into society and how lenders have successfully used gender relations to empower females to some degree.

Secondly, the high cost of borrowing, which results in large repayments, has become a drain on the borrower. It leads to the creation of an unfavourable condition for the success of microcredit. During the fieldwork, the high cost of borrowing was seen as a method used by MFIs like OISL to recoup their investment for sustainability and profit reasons. Interest rates, fees and deductions, and other transaction costs are included in the microfinance costs to the borrowers. OISL used flat interest rates (usually 4% monthly), which equates to around 48% annually. The borrowers who responded to the study said the interest rates were 'acceptable'. The borrowers' responses suggested satisfaction with OISL's interest rates. This could be observed from their inclination towards using the rates of other money lenders as a benchmark.

As of 2018, Ghana's prevailing average market borrowing rate registered at 34.50 per cent[114]. However, because of the severe restrictions money lenders impose on their services, they rarely lend to generate income.

Again, there are other reasons why the borrowers appeared to be content with the interest rates. For instance, the borrowers' lack of knowledge of the interest rate charges, such as the flat interest rates and additional fees, increases the effective interest rate. The literature showed that many microfinance institutions were known for having unclear interest rate policies (CGAP, 2004). This makes it challenging for the borrowers, many of whom are illiterate, to make informed decisions. It is also possible that the borrowers are financially illiterate and do not fully understand the concept of interest rates. The high interest rates and other charges caused much pressure on the borrowers who struggled to repay their loans. This is especially accurate for those with a very low income, who may risk being removed from the programme.

Considering the unsuccessful stories surrounding microcredit because of the associated high cost, one may assume that borrowers who were unable to meet the prevailing market interest rates appear to possess the capacity to effectively make enough revenues to afford the high rates. A question could be asked whether the service users are adequately financially educated and understand the complex interest rate system of microfinance programmes. The current condition makes it challenging for them to make informed decisions regarding how interest rates would affect their businesses. In general, because some borrowers operate in bad markets and often use loans for non-business activities, according to the survey, the high interest rates would contribute to the enormous repayment pressure on users' experience.

[114] Take-profit.org (2023). & Trading Economies (2023). Ghana Bank Lending Rate.

Besides the high interest rate, a common opinion among the borrowers was the high OISL's charges and deductions (see Table 4.8). Some of them confided in the researcher about their unhappiness, particularly about the reduced amount of loans offered them after the deductions had been made. Although they were not considered financially literate, they were aware of the approved loan amount and the amount received. The programme with the OISL also involves service users meeting regularly to make loan repayments and participate in other activities, which incurs an additional cost. The study noted that OISL had chosen Friday as the borrowers' or clients' meeting day, which is also the community's market day - a crucial day for traders. This has raised concerns as service users are typically hesitant to attend meetings on this day, given their eagerness to trade. Consequently, such meetings are poorly attended. However, OISL staff maintains that the borrowers decided to meet on Fridays.

In summary, it is understandable that borrowers may not experience significant advantages from accessing microcredit due to its high costs. Therefore, the high cost of borrowing is a factor that reduces or limits the effectiveness of microcredit for borrowers. The finding aligns with the literature suggesting that accessing microcredit can harm business activities and growth because the high cost could harm a business's turnover and growth. (Nguyen, 2014; Dehejia et al.; 2005; Ackah and Vuvor, 2011; Hulme and Mosley, 1996). Inexplicably, the researcher found that OISL declared huge profits at the end of each accounting period. This means the MFIs did not need to charge a high loan interest rate.

A key finding of the study clearly showed that MFIs, including OILS, can reach and serve both potential and current users according to their own terms. These interventions were designed without input from the service users and regard for the context and characteristics of the study region. The priority consideration of their implementation was to benefit the OISL with the inclination of the MFI's going concern rather than considering the interest of the service user.

The end consequence was a widespread mismatch between terms that should be carried out and considering which of the conditions or factors of the intervention (microcredit) will enhance and make better the standards of living conditions of the service user. For example, the repayment period, excessive fees and charges (see Table 4.8), in addition to the interest rate charges at the initial processing, are strictly implemented without the recourse of the service users' interest. The study's further observation was that these terms and conditions are not favourable for loan lending on the part of the borrowers, which inconveniences them and limits the impact of microcredit on improving the standards of living. It is worth noting that MFIs usually set the terms and conditions of microcredit to ensure strict financial viability. Again, loan distribution and repayment schedules were regulated and did not consider the changeable economic realities typical in the field of study. The influence of the non-participation of service users in the design of the terms and conditions of the interventions resonated throughout the findings of this study. Properly structured government's functional and supervisory role in the microfinance sector may reduce these unfavourable factors. It will further eliminate mistakes that the MFIs make, frequently leading to insolvency, with some ceasing operations and closing their offices, thereby freezing borrowers' funds.

From the borrower's perspective, the study corroborates with the literature that microfinance lending positively affects low-income earners' income generation and consumption levels regarding changes in household living standards. Access to microcredit appears to benefit the borrower because more money is available to meet the demands and increase personal and household expenditure, resulting in improved well-being and standards of living. According to the study, access to microcredit increases contributions to health, education, and consumer durables expenses. However, the high cost of borrowing can reduce any benefits derived from the loan.

Furthermore, the study found that microcredit enabled service users to increase profits by increasing revenue and lowering costs by purchasing in bulk at a discount, at lower prices, and without having to buy on credit. Nonetheless, there was no significant impact on business assets. The borrowers' business assets after the loan were similar to those before.

On the growth in business turnover, the total volume following the loan was higher than before when there had been borrowing. This assumes introducing some investment in the borrowers' businesses. As a result, it can be concluded that microcredit leads to increased business turnover in the right and favourable environment. The study found a positive increase in profit growth when loans are borrowed and invested in a business. One significant finding was that most businesses that experienced significant growth were generally found to have taken out large loans and vice versa. This emphasised the significant finding, which showed that the loan size was a positive factor for microcredit's effect on business and subsequent influence on household expenditure. There was an indication that the initial favourable outcomes accrued to service users rose with rising loan size. However, the advantages began declining above a certain threshold as the loans increased. Perhaps this explained why a few businesses that took out much larger loans could not achieve similar significant gains. The overly ambitious drive to expand accelerated growth but resulted in many complications and challenges.

In summary, microcredit's effectiveness on beneficiaries' living standards depends on several factors. These include ensuring borrowers are given all their borrowed amount without being asked to set part aside as savings. The demands from the MFIs requesting a portion of the loan as savings that yield little or no interest minimise the impact of the loan. The high costs associated with borrowing, such as interest rates, fees, charges, and other deductions, can result in unfavourable loan conditions. This results in significant repayment obligations that can cause hardships for the service clients. However, the training programmes that the MFIs offer can help tackle these challenges, leading to loan effectiveness, which can enhance borrowers' living standards. Also, the gender of the borrower may impact the effectiveness of a loan. Female service clients manage loans better than their male counterparts, leading to lower repayment problems. The excessive focus on the MFIs' financial sustainability as a factor to ensure profit and survival can add pressure on the borrowers as the institutions pass on the costs to the clients. Lastly, the MFIs' own terms and conditions for their product and services, which the clients have no input in, can harm them regarding their credit needs. This can limit the effectiveness of the loan when obtained.

6.2.2 Does microcredit impact the living standards of beneficiaries, as measured by household expenditure?

The question was the first of the two questions asked in section 0.3. Two sub-questions were further asked in response to the above study topic. The first sub-question was: What is the nature and size of the impact of microcredit on the business performance of borrowers, given that this is the main source of income and expenditure for the microtrading enterprises that this study focused on?

The econometric regressions clearly show a positive relationship between microcredit, household expenditure, and business turnover. Tables 5.1A–5.1B illustrate the results of the effects of the selected independent variables on the business turnover of microfinance beneficiaries. Overall, the results indicate a strong correlation between the independent and the dependent variables (section 5.4.1). The study found that the working capital, total amount borrowed, loan cycle, and interest all contributed to the variance in turnover. Table 5.1A shows a significant correlation between the change in business turnover and the four independent factors. This indicates that each independent variable's impact on the change in business turnover may be explained individually as well as collectively, and the borrowers who took out loans from microfinance organisations were likely to have successful business outcomes. In other words, the study implies a causal relationship between independent and dependent variables, and also, most borrowers of microcredit are successful in investing the credit in their business.

Businesses started to benefit and improve due to taking more loans from the MFIs. According to the literature, increasing the number of loan cycles is typically seen as a strategy to manage loan repayments. Low-income borrowers start a new cycle and take out new loans to repay their existing debt. However, other characteristics, such as the number of years spent on the business and the entrepreneurial skill, may have contributed to the first improvement in business if these borrowers in this study took out further loans because their enterprises showed signs of development.

The study's results exhibited a notable significant contribution to business benefits. Although this study's research technique and parameters are different, the results are consistent with the literature and agree that borrowers achieved increased turnover when respondents took out microcredit.

Furthermore, the evidence that demonstrates growth in business activities when microcredit is obtained suggests that when more microcredit facilities are accessed, there is an indication that the money is invested into the business, therefore creating more business activities and opportunities in the form of increased business turnover. It was observed that many businesses allocated a substantial portion of the borrowing funds towards working capital rather than investing in physical assets. This financial strategy helps them in maintaining or expanding their business operations. By concentrating on working capital, these businesses can procure additional stock-in-up inventories to prepare for unforeseen situations instead of solely depending on physical assets or machinery. It is worth mentioning that most respondents were involved in trading rather than manufacturing. Thus, using microfinance as working capital is more appropriate than investing in physical assets and equipment. This approach provides them with greater flexibility and security in their operations, which can ultimately lead to long-term success. Perhaps this suggests that microenterprises often face limited accumulation of funds, which can hinder the ability to conduct business. As a solution, it may be necessary for these businesses to secure working capital or cash to attain the initial or primitive accumulation needed for success.

Additionally, there is evidence that borrowing households, in anticipation of future returns, increase their working capital by using their resources to top up the loan. This enables the funds to reach a sizable amount that would be sufficient to invest in a specific minimum size due to the investments being lumpy and the loans being too small in themselves to start or expand a business. The above suggests that when service clients use a microcredit facility, the variable is essential in establishing the beneficial elements to consider boosting the value of business turnover.

Microfinance had little impact on direct job creation, but borrowers were likely to rely on unpaid household members when additional labour was required. Regarding reducing cost, microfinance enables borrowers to increase profit and reduce input costs by purchasing large quantities of inputs. During the harvest season, when foodstuffs were relatively cheap, borrowers, particularly food vendors, purchased large quantities for storage. This method virtually eliminates any middleman and cuts down the cost for business. This means that, as mentioned earlier, due to seasonal fluctuations in cost and variations in economic activity, microfinance helped reduce business risks associated with fluctuations in price.

During the fieldwork, it was discovered that the borrower had no choice but to use part of the money received from sales, preferably for the payment of interest, instead of re-investing for business expansion to improve the benefits of its turnover. Besides, it was established that the interest amount charged on the loans has a negative effect on business turnover. The 48 per cent per annum OISL charge is very high and expensive. The service clients needed to make more than 50 per cent on the loaned amount to survive. An increase in interest rate increases the cost of credit services, and businesses that cannot afford high operation efficiency may find themselves making losses. This gives rise to the inability of loan beneficiaries desiring to make blind investment decisions because the high interest rate may further complicate business expansion strategies.

The results indicated an increase in most business activities, contrary to the studies reporting that businesses shrink in microfinance impacts studies. Did this happen because borrowers used additional labour hands for support instead of shedding unproductive employees, as mentioned in the literature? The literature showed that microcredit generally works through risk management and investment at the household level rather than directly through the targeted businesses.

Addressing the second sub-question, which was: What is the nature and size of the impact of microcredit on the household expenditure of beneficiaries? It is essential to note that the study found an increase in household expenditure after the small loans were accessed. Section 5.4.2 and Tables 5.2A – 5.2B, respectively, present the discussions and the data focusing on the above question. The results demonstrate that, in addition to their spending on their microbusinesses, borrowers' household boosts their expenditure on other essentials when they borrow. The findings showed that participation in the microfinance programme significantly increases borrowers' household expenditure through a boost to business turnover, thereby improving their living standards. Although the intervention had made very little difference in enabling borrowers to acquire long-term business assets, it enabled borrowers' households to increase their consumption and, more importantly, reduce their vulnerability.

Another significant study's finding was the effect of turnover on the change in household expenditure when the clients borrow. The results revealed that a borrower's household expenditure increases when the business turnover rises. This can be interpreted as clients' proclivity to spend a percentage of their turnover. The effect of total loans borrowed also demonstrated that as more loans were borrowed, there was an increase in household expenditure. This may be perceived as a problem because a portion of the loan may be seen as being diverted for domestic use.

Based on the data, it was determined that a majority of the borrowers used the loan for business-related purposes. At the same time, only a few (were observed) took out the loans for personal consumption. These service users seem to secondarily increase their expenditure, which can improve their standards of living. They, however, experienced severe pressure associated with loan repayment, and the very low-income service users were likely to face challenges. Table 5.2B gives a summary of the scale of the effect of the variables on household expenditure. In conclusion, the data analysis unequivocally demonstrates a positive and direct correlation between microcredit and household expenditure and business turnover, which conforms with some reviewed literature. Therefore, it is important to mention that the regression results indicate that, on average, microfinance is positively associated with expenditure and turnover.

6.3 Methodological Implications of the Study

The study provided some contributions to the knowledge of factors that make microcredit a success or restrict its effectiveness and to help the borrowers better and improve their standards of living in rural areas. This thesis found that understanding microfinance interventions (microcredit) cannot be separated from the context and factors with which they function. The findings of this thesis urge a reconsideration of the conceptualisation of microfinance interventions, particularly in rural areas. This section discusses the study's methodological contributions.

This study is a significant step forward from earlier attempts to investigate microfinance in Ghana, particularly regarding the research methodology used. Designing the questionnaire using information from the interviews allows the study to use contextually integrated data. Much of the research has used a single way of analysis, and even when a mixed method approach is used, the data is obtained independently of each other. Using quantitative and qualitative research components also enables the study to fully explore the research question. This study extends the previous research by demonstrating that a comprehensive approach to analysing microfinance interventions is a more effective technique.

Next, in studying microfinance and prioritising the users' perspective, this study aimed to understand what factors the service users appreciate and are concerned about in microfinance interventions. For instance, the study explored service customers' concerns regarding payback pressure, which many studies have overlooked. The study uses the interpretative approach to guarantee that the findings accurately provide a valid and accurate picture and measure what the researcher set out to measure. Furthermore, the researcher selected an area of study in which he had sufficient knowledge of the context.

As mentioned, the real monthly total expenses of selected components in the respondent's household expenditure were collected during the field trip. It should be highlighted that the expenses sample only includes households that depend on the business for which the microcredit is used. This can be seen as a challenge in methodology. In other words, not only does the credit indirectly affect or contribute to household expenditure via its impact on turnover and profits, but part of the credit may be used directly for household expenditures. In essence, the study did not entirely consider two firmly distinct or separate entities but entities whose transactions depend on each other to some extent.

6.4 Limitations of the Study

This study faced certain limitations. One of the aims of this study was to provide findings that could be applied to rural and perhaps peri-urban areas in Ghana. However, due to a lack of resources, only one microfinance intervention from a microfinance institution (OISL) was used. Although five different branches[115] were used to collect the data, they (the branches) were in the same region. Therefore, in a context, the findings can only be applied to the borrowers in the intervention. Nonetheless, like OISL, most microfinance institutions in Ghana adopt the same or similar versions of the Grameen model[116]. Thus, there is a strong possibility that the findings of this study will apply to other interventions in rural communities, particularly the coastal areas in Ghana.

Besides, the population from which the sample was selected may introduce selection bias, limiting the study. That is, the study worked on a sample of people[117] whom the financial institution screened. Work on this sample is likely to produce more positive results. Again, the comparatively small sample size for the study is another limitation. This affected both the

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[115] These areas include Adjen Kotoku, James Town & Bukom, Circle and Ashaiman.

[116] Among other characteristics, the Grameen model targets the poor, provides doorstep service, delivers collateral-less loans and gives repeated and increased volume of loans. The rest includes a good repayment rate, focuses on women, is managed by banking professionals and has a good impact on marginalised groups.

[117] It appears that OISL leaned more towards approving loans for borrowers (females) who have a higher likelihood of repaying the loan, rather than those (males) who may have a greater need for financial assistance. This can be a difficult situation for those who may have a genuine need for the loan, but may not fit the specific criteria that OISL is looking for.

qualitative and quantitative analysis. Data collection to cover more demographic categories in a larger geographical area would have been ideal.

Furthermore, the inability of the researcher to access some data was a major problem of the study. The study had no independent access to verify all the information collected and had to rely on the questionnaires and the verbal responses given by the interviewees. For instance, the data on the interest paid on the borrowers' savings were inadequate. Again, the dearth of access to some repayment data and the actual number of service clients who have graduated or dropped out of the intervention is a limitation. No concrete figures could be obtained on the above, and record-keeping was not good enough. Also, other borrower-related activities (not included in the analysis) do not address potential sociocultural and psychological factors that may influence a borrower's perception and decision on microcredit.

6.5 Areas for Further Research

The implication of the study's findings is the need for a greater emphasis on the role of various factors that contribute to promoting or restricting the influence of microcredit to better and improve the borrowers' lives. Conducting thorough and contextual research that uses bigger sample numbers and includes different MFIs across a broader geographical, economic and cultural area is essential. Further research might also seek to develop reliable frameworks that account for sociological and psychological client factors and MFI institutional characteristics that influence the outcome of microcredit use.

This study's findings have indicated that there is relatively little literature on the factors to consider in addressing the design and delivery of microcredit as an intervention. Investigations into implementation and delivery gaps, particularly factors affecting microcredit effectiveness, should be integrated into microfinance research since they could be essential to explaining the findings. Additionally, the findings suggest that borrowers are ignorant of certain aspects of the delivery of microcredit, for instance, the borrowers' savings that earn little or no interest, as well as other factors. These have been argued to ensure the MFI's sustainability and influence the success of microcredit, potentially benefiting borrowers. These issues raised could shape the basis for further studies. The literature suggests that many of the studies have focused on female involvement in microfinance; the findings of this study highlight the necessity to investigate microcredit success or otherwise on male service users, who are gradually becoming a proportional force of service users.

Moreover, according to the findings of this study, the characteristics of a household can have a significant impact on the effectiveness of microcredit and the living standards of its occupants to some extent. The study revealed that factors such as income level, household size, and education level of the household head can be primary influencers in this regard. Households with higher income levels and smaller households tend to have a more favourable outcome in terms of the effectiveness of microcredit and the living standards of their occupants. It is worth noting that households with better-educated heads tend to exhibit a contrasting situation. However, despite the potential significance of this topic, there is a limited amount of literature available on this subject, particularly in the context of Sub-Saharan Africa and Ghana specifically. This research gap highlights the need for further investigation into this area to gain a more comprehensive understanding of the impact of household characteristics as factors on microcredit effectiveness and the living standards of its occupants.

As mentioned earlier, although the survey was conducted in only one region, the findings can be expected to be reasonably representative nationally. This is because the Greater Accra Region has the highest percentage of MFIs and a significant scale of outreach compared to the other regions. Given the time and resource constraints, only a few regional districts could be sampled. The survey may be expanded to the remaining regions and districts for a thorough country-wide assessment.

Another point that must be further investigated is that the current study's household survey was designed cross-sectionally. This suggests that the responses were related to a specific moment in respondents' lives. In preference, if additional rounds of interviews are conducted in the form of a panel survey, where the same set of interviewees is contacted over a period of time, a better respondent profile can be built, resulting in a more accurate picture of intervention outcomes.

Finally, further attuned research focusing on borrowers' interests and appreciation is necessary. Low-income earners frequently believe that interventions (microcredits) are doing them a favour. Therefore, they rarely complain about them; consequently, studies that pick up on the slightest concerns from the service users are essential to developing a microcredit intervention suited for service users.

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APPENDICES

Appendix 1: Questionnaire for OISL Service Users

Questionnaire for OISL Service Users

Background

Interview ID: ________________________ Interview date: _______________Field agent: ____________________

Country: GHANA Service point:_______________________

Demographic Information

i. Name of Respondent:_____________________

ii. Age:

iii. Gender: ☐ Male ☐Female

iv. Religion: ☐Christian ☐Muslim ☐African Traditional Religion ☐Other (please specify) _________

v. Marital status: ☐ Married ☐ Divorce ☐ Separate ☐ Widowed ☐ Single

vi. What is the highest level of education?

☐ No education ☐ 1st Degree ☐ PhD
☐ Primary ☐ Other (please specify)………
☐ Middle School Leaver
☐ SSCE/O Level/A Level ☐ Master's degree

vii. What is the principal activity of your business?

☐ Dressmaker ☐ Farming ☐ Not working
☐ Petty trader ☐ Restaurant/ cafe owner ☐ Other (please specify)……….
☐ Carpenter ☐ Beautician
☐ Driver ☐ Factory owner

viii. How long have you been in business?

ix. How many members does the household have?

x. How many are your dependants?

xi. How many household members between the ages of 5 to 17 are currently in school?

xii. What is the main construction material used for the outer wall?

□ Mud bricks/earth, wood, bamboo, metal sheet/slate/asbestos, palm leaves/thatch (grass/raffia)

□ Cement/concrete blocks, landcrete, stone, or burnt bricks □ Other (please specify) ….………

13. What type of toilet facility is usually used by the household?

□ No toilet facility (bush, beach) □ Pit latrine, bucket/pan

□ Public toilet (e.g., W.C., KVIP, pit pan) □ KVIP, or W.C.

14. What is the main fuel used by the household for cooking?

□ Wood, crop residue, sawdust, animal waste □ Charcoal or kerosene

□ Gas, or electricity □ Other (please specify)…………….

15. Does any household member own a working television, video player, VCD/DVD/MP3/MP4 player/iPod, or satellite dish?

□ Only television

□ Video player, VCD/DVD/MP3/MP4 player/ iPod, or satellite dish (regardless of T.V.)

□ No

16. How many working mobile phones are owned by household members?

17. What is your average monthly income before the microcredit? ……….………

18. What is your average monthly income after the microcredit? ……….………

19. What is your current average monthly expenditure on the following?:

	Before the microcredit	After the microcredit
Tax	…………….	………………
Hired labour	…………….	………………
Loan repayment	…………….	………………
Rent	…………….	………………
Education	…………….	………………
Food	…………….	………………
Other (please specify)	…………….	………………
Total	…………….	………………

<u>Purpose and Use of Loan:</u>

20. When did you take the loan?

21. What is the duration of the loan?

22. How many times have you been granted a loan under the scheme?

23. How much did you receive on each occasion?

□ 1st loan ………□ 2nd loan……………□ 3rd loan …………□ 4th loan……… □Other(please specify).........

24. What is the total sum of your loans? ....

25. What is the main activity for each loan?

☐ Start a business ☐ Expand a business ☐ Pay school fees ☐ Pay house rent
☐ Family upkeep & growth ☐ Pay another debt ☐ Other (please specify).........

Cost of Microfinance

26. How much are your monthly repayments?
27. How much interest do you pay on your loan in a month?
28. Have you ever paid a late repayment charge? ☐Yes ☐No
29. If yes, how much?.........
30. Have you ever paid an early repayment charge? ☐Yes ☐No
31. If yes, how much?.........

Loan Repayments

32. Have you ever had difficulties repaying a loan? ☐Yes ☐No
33. If yes, how did you overcome the difficulties? ☐ Extend repayment period ☐ Cutting down on expenditure ☐ Borrowing from informal sources (e.g. friends and relatives, money lender) ☐ Selling or pawning assets ☐ Defaulted ☐ Other (please specify).........
34. Have you ever borrowed from another source to pay back loans taken from OISL?
    ☐Yes ☐No
35. If yes, please provide details…………………………………………….

Savings and Interest Rates

36. Do you have a savings account with OISL? ☐ Yes ☐ No
37. If yes, what type of account is it? ☐ Individual ☐Group ☐Both ☐ Joint ☐Other
38. What is the purpose of the savings account? ☐To secure a loan facility ☐ To meet unforeseen expenditures ☐ To be used to support business (working capital, equipment, renovation of structure) ☐ To pay for school fees, medical bills, utilities, etc. ☐ Other (please specify).........
39. When was the account opened?.............
40. How often are payments made into the account? ☐ Daily ☐ Weekly ☐ Bi-weekly ☐ Monthly ☐ Other (please specify)......
41. How often can withdrawals be made from the account?
42. What is the current balance on the account?.......
43. What is the source of income for the savings account? ☐ Profit from business ☐ Contribution made by friends/relatives ☐ Remittance/Gift ☐ Rent income ☐ Income from other business ☐ Other

Effect on Business

How has your participation in the OISL scheme contributed to the following	Before the Loan (Base value)	After the loan (Impact)
Size of business (es)		
Working capital		

Number of employees		
Business Assets		
Annual turnover		
Business Profit		
Business Savings		
Business Debt		

Effect on Household

How has your participation in the OISL scheme enabled you to do the following	Before the loan (Base value)	After the loan (Impact)
Education		
Houses		
Land		
Health		
Household durables		
Other properties (please specify)		

Have the following factors improved or limited the success of microcredit?	Yes	No	Don't know
Size of loan			
Type of Loan			
Frequency of loan disbursements			
Interested rate			
Non-financial support, e.g. Training			
Education level			
Employment			
Gender			
Seed capital			
Other (please specify)			

Appendix 2: Interview Guide for Representatives of OISL

<u>Interview Guide for Representatives of OISL</u>

Demographic characteristics

a. Name:
b. Age:
c. Job title:
d. How long have you worked for OISL?

Microfinance Schemes: Goals, Implementation and Challenges

e. How are your programmes organised?

f. Who are the OISL's main targets for their microfinance schemes? (Any special reasons for the choice?)

g. How much interest do you charge on savings and loans

h. Are there any challenges in the implementation of programmes from the institutional standpoint?

i. What has your organisation done or doing to address some of the challenges you have identified?

j. What do you seek to achieve through your programmes in the lives of the beneficiaries and their households?

k. What is the estimated number of dropouts annually?

l. What are the key reasons for dropouts?

m. What is the default rate?

n. How many loans must be written off as bad debt due to non-payment?

o. Is there any risk management policy to reduce the default rates?

Eligibility criteria

p. Are there special eligibility criteria for potential borrowers?

q. What are these eligibility conditions? (Please elaborate)

Non-Financial Services

r. Do you offer any non-financial services to your customers? If yes, what are they?

Loan usage restrictions and repayments

s. What is the least amount of loan that OISL grant to customers as a policy?

t. What is the largest amount of loan granted by OISL to a single customer?

u. Can you describe any restrictions on the use of loans?

v. How do you collateralise your lending?

w. Are there any insurance arrangements to guarantee loan repayment besides the above? Can you identify these arrangements?

x. What is the longest period of repayment allowed for your customers?

y. Can you tell me the grace period for defaults?

z. What are the consequences of defaulting?

aa. What happens to the collateral when payments are missed?

bb. Are there early repayment penalties? What are they?

cc. Can you describe the technical support or training given to the borrowers to help them use the loans?

Monitoring procedures

dd. What are the monitoring procedures used to supervise the usage of these loans?

ee. How often do you visit borrowers at their business premises?

Performance and sustainability

ff. Can you describe the performance indicators used to assess the effectiveness of your microcredit programmes? Which one is the most important?

gg. Do you think your programmes have brought changes – impacts on the lives of beneficiaries? Can you explain?

hh. Can you tell me about any successful cases of beneficiaries through your programmes?

ii. What factors do you think to improve the likelihood of microcredit in reducing poverty? Which has the most impact?

jj. What factors do you think to limit the effectiveness of microcredit in reducing poverty? Which factor affects it the most?

kk. What are some of the challenges beneficiaries face? (in business and at home)

ll. What has your organisation done to address the challenges you identified above?

mm. Any further comment(s)?

Thank you.

Business Characteristics

Business Characteristics	Category		Frequency	Valid Percent	Cumulative Percent
Principal Business	Valid	Trader	100	50.0	50.0
		Farmer	32	16.0	56.0
		Beautician	18	9.0	65.0
		Fishmonger	17	8.5	73.5
		Restaurant/Café Owners	21	10.5	84.0
		Others	12	6.0	90.0
		Total	200	100	
Number of Years in business	Valid	1-5	11	5.5	5.5
		6-10	118	59.0	64.5
		11 and above	71	35.5	100
		Total	200	100	

Source: Author's computations from Fieldwork Data, 2018

Savings

	Category		Frequency	Valid Percent	Cumulative Percent
Account type		Individual	200	100.0	100
Purpose of Savings		To secure loan	200	100.0	100
Savings frequency		Weekly	10	5.0	5.0
		Bi-weekly	190	95.0	100
		Total	200	100.0	
Current Balance (GH)	Valid	<500	113	56.5	56.5
		500-800	67	33.5	90.0
		>800	20	10.0	100
		Total	200	100.0	

Source: Author's computations from Fieldwork Data, 2018

Total loans borrowed by quintile group

Quintile group	Frequency	Percentage share of the total loan
2000-5200	44	22.0
5201-8400	96	48.0
8401-11600	57	28.5
11601-14800	0	0
14801-18000	3	1.5
Total	200	100

Source: Author's computations from Fieldwork Data, 2018

Purpose and Use of Loan

	Category	Frequency	Valid Percent	Cumulative Percent
Activity of loan	Expand business	98	49.0	49.0
	Support business	99	49.5	98.5
	Domestic consumption (School fees)	3	1.5	100
	Total	200	100.0	

Source: Author's computations from Fieldwork Data, 2018

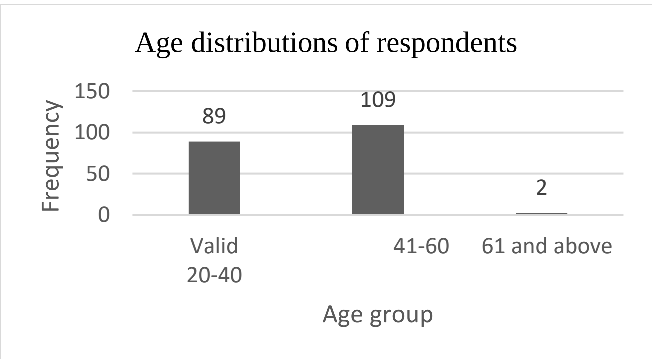
6.0 Characteristics of Respondents

6.1: Age

The age of the respondents was re-organised into a three-classification ordinal variable in ascending order (see Appendix 6 above). The groups were necessary because of the broad age range of the respondents. Grouped data saves space and makes it more comfortable to look for patterns. The figure below shows the frequency distribution of the ages of the respondents.

According to the table, the borrowers of OISL in the 41-60 category account for 54.5 per cent of the clients. This is followed by 44.5 per cent and only 1 per cent for the 20-40 and 61+ categories, respectively. The mean age calculated from the data is 42.8 years, and the median value is 42 years. The mode, however, is 50 years.

Age Distribution of Participants



Source: Author's computations from Fieldwork Data, 2018

6.2: Gender

Much of the literature on microfinance suggests that females constitute the majority (more than 73 per cent)[118] of clients in most microfinance interventions. Several reasons have been offered for the domination of female participation in microfinance interventions. ILO (2008) puts forward some of the reasons. They opined that the services offered by these institutions result in female empowerment by helping them significantly impact decision making and improve their general socio-economic status. Commercial banks often neglect traditionally disadvantaged females in accessing credit and other financial services. Therefore, microfinance focuses on female borrowers to make sense from a public policy perspective. The 'business cases' for targeting females include recording higher repayment rates and making a more significant contribution to household consumption income than their male counterparts (ibid).

The OISL, as an MFI, is no exception. Credit institutions primarily targeted females. This was highlighted in the interview with the employees, confirmed under the participants' demographics above. The female borrowers constituted 84.5 per cent of the clients, while 15.5 per cent were males. The managers disclosed that the historical loan data of OISL suggests that females have higher loan repayment rates than males. Although the institutions do not discriminate, the criteria employed by OISL favour including females. This approach could be the reason females dominate the marketplace visits by the loan officers. Therefore, it is not surprising that females represent the majority of OISL's sample size of 200

6.3: Religion

Appendix 6 showed that Christian service users constituted the majority, 72 per cent, compared to 28 per cent of Muslims. The study expected a similar percentage to be recorded in line with

[118] D'Espallier, B. et al. (2011); Daley-Harris (2007); Somavia, J. (2007)

the religious composition of Ghana[119]. More than 10 per cent of the Ghanaian population identified themselves as having no religion or belonging to the African Traditional Religion. Interestingly, the study did not represent this information.

6.4: Marital Status

The data indicated that married clients formed the majority of the respondents. Married service users constituted 73.5 per cent. This is followed by single service users, who accounted for 13.5 per cent. The divorced and widowed service users comprised 6.5 per cent of the respondents.

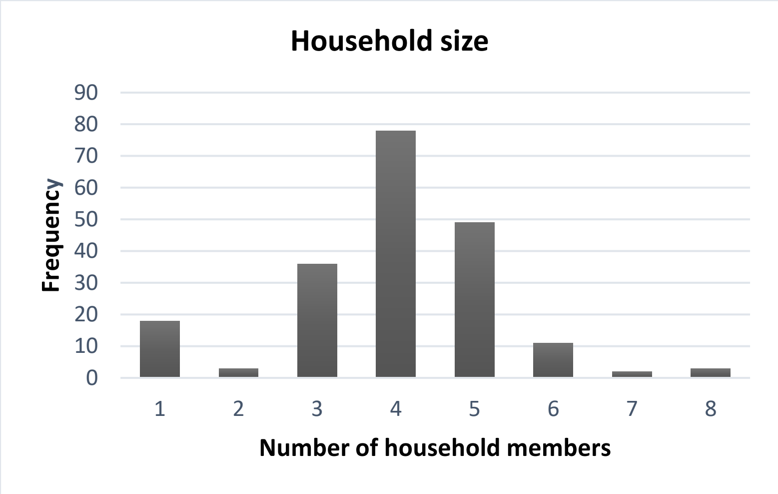
6.5: Household Size

The social and cultural structure of the Ghanaian population mirrors the composition of its households, particularly in rural areas. The extended family systems are standard in Ghana, which is more evidently prevalent in rural areas. The Ghana Living Standards Survey (GLSS6 2014) defines a household as a person or a related or unrelated group of persons living together in the same housing unit. A household shares the same housekeeping and cooking arrangements and is considered one unit. Typically, an adult male or female is the head of the household. The data shows the distribution of borrowers' household sizes. The household sizes of 1-4 members constituted 68 per cent of the sample for the study, which is significantly higher than the sizes of 5 and above that formed the remaining 38 per cent. Moreover, the figure below gives the frequency of the number of household members in the study. The most common occurring size of households (mode) was four members. The mean household size calculated from the data is 3.9, and the median value is 4.0. The mean figure calculated is not

[119] Christian 71.2 per cent (Pentecostal/Charismatic 28.3 per cent, Protestant 18.4 per cent, Catholic 13.1 per cent, other 11.4 per cent), Muslim 17.6 per cent, traditional 5.2 per cent, other 0.8 per cent, none 5.2 per cent (CIA 2019).

significantly different from the estimated Greater Accra Regional figure of 4.3 obtained from the 2010 Census.

Household Size Distribution



Source: Author's computations from Fieldwork Data, 2018

6.6: Number of Dependants

Most of the borrowers sampled for the study were females who often bear the responsibility of household chores as usual in a developing country. These sometimes include taking care of dependents, who usually are children. From the data (Appendix 6), service users who have between 0-2 dependants represent 79.5 per cent and those with 3 and above constituted 20.5 per cent of the respondents. Meanwhile, the GLSS6 (2014) survey shows a dependency ratio of 8 persons in the dependant ages (children and the elderly) for every 100 persons in the working-age group.

6.7: Members in School

Recently, school enrolment in Ghana has continually increased at all levels of education (pre-primary, primary, secondary and tertiary education) (MOE 2013). Therefore, the school attendance rate for household members is rising, particularly in the Greater Accra region, which has more than 90 per cent of the school-going Age in school. This is against the backdrop that educational expenses, such as school fees in public schools, are nearly non-existent because of the introduction of pre-tertiary free and compulsory education. The household members in school give the study a guide relating to the size of expenses on education. Table 4.3 shows that 83 per cent of the borrowers have 0-2 children in school, and households with 3 and above members constitute 17 per cent. The low number of children in school can be due to the respondents' mature age. For instance, with a modal age of 50, it is expected that the 'children' of borrowers may be young adults who have either completed school or are into work.

6.8: Level of Education

According to Sasu (2023) and the World Bank (2024) collection of development indicators, the literacy rate of the adult total (aged 15 years and above) in Ghana was reported at 80.4[120] per cent from 2020. The level of education was included as a three-category nominal variable in the data.

The Ghanaian education system is divided into three parts: Basic Education, Secondary Education and Tertiary Education. Basic education is free, compulsory, and lasts 11 years (ages 4-15). The secondary cycle education (Senior High School) lasts three years (age 15-18). Tertiary education or post-secondary is the educational qualifications beyond secondary schools, such as a teacher training college and university education. For this study, people with post-secondary education were excluded from the category because they are considered not to belong to low-income earners.

[120] The total literacy rate refers to the percentage of the population aged 15 and above who possess the ability to understand and articulate a simple statement based on their daily lives. Literacy encompasses numeracy, which involves the capacity to perform basic arithmetic calculations. This indicator is derived by dividing the count of literate individuals aged 15 years and over by the corresponding population within that age group, and subsequently multiplying the outcome by 100.

The table shows that primary education respondents had the highest frequency (48 per cent). This is followed by borrowers who possessed secondary education and those with no education, consisting of 38.5 per cent and 13.5 per cent, respectively.

6.9: Average Expenses/Month

Household Expenses

This is the real total monthly expenses of selected components in the respondent's household expenses collected during the field trip. The expenses considered include food and beverages, rent, education, health, clothing, transport, leisure, etc. It has to be noted that the sample contains only households that rely on the business for which the microcredit is used. The expenses are measured as the monthly average of the last 12 months, and the data was collected from the client in one sitting. The household expense figures are measured in Ghanaian cedis and are natural log-transformed.

The data captures the amount of expenses paid out by the sampled borrowers. Again, the expenses were grouped into two categories: before and after the loans. The expenses components used in the study include food and beverages, rent, education, health, clothing, transport, leisure and others. The results on the tables make the results somewhat curious. After the loan, there was a growth in the borrowers’ expenses. The reason for the increase in expenses is the 'uneconomical attitude' exhibited by some respondents once they get the loan. As stated earlier, people, including low-income earners, who have competing insatiable needs may have the urge to 'misuse' part of the money to satisfy any unmet need. For instance, loans taken for business support may be 'diverted' to settle hospital bills and payment of rent if necessary. Notably, most loans from MFIs are unsecured; therefore, they have a higher interest rate than loans from the traditional bank.

6.10: Outer Wall Material

The study wanted to ascertain the type of housing conditions for the respondents. The primary construction materials used for the outer walls are presented in the data. Cement blocks and concrete (82.0 per cent) is the most common material for constructing outer walls, followed by mud bricks and woods, which constitute 12.0 per cent and 6.0 per cent, respectively. In contrast, Ghana has 65.0 per cent of the dwellings constructed of cement blocks/concrete, 31.1 per cent of houses made up of mud or mud bricks and wood material making 1.7 per cent. A probable reason for this disparity is the extremely poor housing conditions, particularly in the northern part of the country, that might have confounded the national survey results.

6.11: Toilet Type Used

The table reveals access to sanitation facilities and types of facilities. A public toilet is the most common toilet facility used by households, accounting for 63.0 per cent, and borrowers' households using KVIP constituted 37 per cent. These calculated figures are compared to the country's rural households, which have about 32.1 per cent and 32.4 per cent of the people using a public toilet and KVIP/Pit latrine, respectively. It is worth mentioning that this may have health and wellbeing consequences for respondents living in the area.

6.12: Owns TV/DVD/Dish

The data shows that 97 per cent of households for the study owned a television set, while only 3 per cent had none. The number of borrowers who owned television sets for this study is relatively higher than in the rural coastal where the study area is located — the national averages of 42.9 per cent and 57.2 per cent, respectively.

6.13: Number of Mobile Phones

Africa has emerged as one of the world's fastest-growing markets for mobile phones, although not at the same level as the South East Asia region. Specifically, more Ghanaians have begun using phones since the year 2000 than in the whole of the previous decade. In Ghana, one of the primary purposes of acquiring a mobile phone is for mobile money services. Mobile money is an electronic wallet service that lets users use mobile phones to store, send, and receive money. It is a popular alternative to a bank account because of its safety and easy features, such as electronic payments. This may account for the mode and mean average for this study to be 2 and 1.8 per household, respectively. The study shows that 85 per cent of borrowers have between 0 and 2 mobile phones in their household, while 15 per cent have 3 or more mobile phones. In regards to asset ownership, findings from the GLSS7 reveal significant increases in mobile phone ownership, notably in both urban and rural areas. The survey indicates that over 93 percent of individuals in the country possess a mobile phone, with ownership levels at 98 percent in urban households and 89 percent in rural households.

6.2: Business Characteristics

6.2.1: Principal Business

For this study, it is worth mentioning that the term' principal business' denotes the primary business that the microfinance institution knows. The principal business where borrowers are involved becomes a guide for the size of capital needed to start the business and the revenue size. It is also an indicator of the quantum of business profit made and the level of impact of the loan on the household. To draw attention to these variances justifies the inclusion of the categories in the study.

The data shows significantly higher borrowers in trading (50 per cent). Trading in small wares is usually a 'fast-moving micro enterprise', quickly returning the invested capital for smooth loan repayment. The farmer's category formed 16 per cent of the study sample. This is surprising because farming is usually not popular with microfinance institutions. During the interviews, the staff confirmed this when they claimed they did not do business with farmers. Farming activities are firmly tied to the subject of seasonality, which is also a function of periodic fluctuation in weather conditions, as in the case of Ghana. Bad weather means poor agricultural yields and thus can lead to repayment difficulties. Restaurant or Café Owners constituted 10.5 per cent of the respondents. This category may require comparatively huge investment sums for their business activities and will likely not be low-income earners. Beauticians, fishmongers and other micro-enterprises constituted 9 per cent, 8.5 per cent and 6 per cent, respectively.

6.2.2: Number of Years in Business

The table shows that borrowers who have been in business between 6-10 years constituted 59 per cent. A probable explanation is that these borrowers are more comfortable borrowing to expand or support their micro-business, having tried and tested the business as a regular income-generating activity. Whereas the 35.5 per cent of the borrowers with 11 or more years of experience may be economically stable and therefore require less borrowing, the 1-5 years category may be pessimistic about their new ventures. It may be considered too risky to borrow.