Collapsing Microfinance Institutions in Ghana: An Account of How Four Expanded and Imploded in the Ashanti Region

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Abstract

The study inquired into why microfinance institutions (MFIs) collapsed in the Ashanti Region of Ghana. The authors found that the problem related primarily to unduly risky, unethical and illegal practices, mismanagement and disregard of due diligence, which when convoluted by external factors like macroeconomic instabilities and panic withdrawals, pushed the risk levels of MFIs beyond the point of containment. We argue that the 2013 macroeconomic crisis in Ghana only contributed to the huge number MFIs involved and the pervasiveness of the collapse – the crisis was not a root cause.

Keywords: microfinance, collapse, Ghana, bankruptcy, MFIs.

In response to rampant collapse and disappearance of MFIs or Susu[1] companies and financial service providers (as they were then called), the Bank of Ghana moved in to close down a number of such financial institutions countrywide in 2008 (Belnye, 2011). But the problem will not go away only to rear its head since 2013 in a continual and more devastating manner. In the first quarter of 2013, about thirty MFIs collapsed in Ghana due to an alleged inability to "sustain their operations."[2] Later in the year, additional twenty also became insolvent[3]. The number keeps on adding up. Recently, one MFI became bankrupt and swindled over 5000 clients[4]. Many of the customers had saved up colossal sums with the MFI.

There is no deposit insurance in Ghana, therefore, when MFIs collapse, customers irretrievably lose their working capital, savings and their sources of livelihood – their businesses are likely to collapse, which further predisposes them to indebtedness and consequentially,

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[1] Susu is a local language which means deposits or savings.
[2] MICROCAPITAL BRIEF: Thirty Microfinance Institutions (MFIs) Close in Ghana: http://www.microcapital.org/: The customers, most of whom had huge deposits with those institutions could not get a refund for the owners could either not be traced, or where they were traced, they failed to raise the requisite funds to pay the customers
[3] http://thebftonline.com/content/bank-ghana-asked-toughen-microfinance-regulation
[4] Lord Winners Microfinance swindles over 5,000 customers http://www.ghanaweb.com/GhanaHomePage/NewsArchive/artikel.php?ID=299140

impoverishment. In this way, instead of reducing poverty, microfinance could create additional cohort of poor population. Further, the public needs to have confidence in financial institutions to patronize their services; the collapse of MFIs is therefore a bad press for Ghana's finance sector. In a country whose microfinance penetration to the low-income population is as low as 9 percent[5], it is also detrimental for existing MFIs. Therefore, the urgency of the need to investigate why commercial MFIs collapse in Ghana is extremely important in order to minimize the possibility of repeating the same errors in the future.

This review also contributes to academic literature on MFIs collapse. Four collapsed MFIs in the Ashanti Region were selected and studied. Additional information was gathered from the Other Financial Institutions Supervision Department (OFISD) of the Bank of Ghana and the Ghana Microfinance Institutions Network (GHAMFIN). The information gathered from the six institutions through interviews and other medium and from the public, constituted the primary data for the study. To enhance the comparability potential of the findings, secondary sources of information on MFIs in Ghana and elsewhere were incorporated in the study. The study is structured as follows: The next section presents the methodology of the study where we discuss the tools, techniques and procedures employed in gathering the data for the study as well as the challenges the study encountered and the limitations of the study. We present the findings in the third section. In the final section, we discuss the implications of the findings for policy and conclude the study afterwards.

Primary Data Collection

Initial interviews with Bank of Ghana (BoG) and the GHAMFIN staff

In Ghana, among other functions, the BoG has overall supervisory and regulatory authority in all matters relating to banking and non-banking financial business including awarding license of operation to all financial institutions[6]. In response to its widening supervision and monitoring duties, in August 2013, the Bank established the Other Financial Institutions Supervision Department (OFISD) to oversee rural banks, forex bureaus and MFIs. The OFISD was contacted for the study obviously because of its role in the microfinance sector of Ghana as the regulator. In the course of discussing the study with two researchers and field officers of the Department, some others took interest in the subject and joined the discussion. Therefore, it eventually became a spontaneous focus-group discussion with five staff of the Department. Some days later, the officer of the Bank assigned to our study emailed us a written response to the questions in an interview guide we sent them. The researchers later contacted them by phone to clarify grey issues[7] that emerged in our interviews with the former employees of the collapsed MFIs.

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[5] Of Ghana's working-age population below the poverty line, only 9 percent have microloans (See Schicks, 2011)

[6] http://www.bog.gov.gh/

[7] For instance, it emerged in the course of the interviews with the former employees of the defunct MFIs that the BoG has introduced a biometric software, which helps to track and verify the borrowing history of clients to prevent

In addition to the Bank of Ghana, the Ghana Microfinance Institutions Network (GHAMFIN) was also contacted. The GHAMFIN is the umbrella network body for MFIs operating in Ghana. It was formed in 1998 as a company limited by guarantee with the support of the World Bank because of concerns of some Ghanaian MFIs for the development of best practices in the delivery of microfinance services (GHAMFIN, 2014). The GHAMFIN seeks to promote the growth and development of the microfinance industry in Ghana and present a common platform for the Rural & Community Banks, Savings & Loans Companies, Credit Unions, Financial NGOs, Microfinance Companies and Microinsurance companies and Susu Collectors. Like the OFISD, we contacted GHAMFIN because they are also heavily involved in the microfinance sector of Ghana. At the GHAMFIN, we interviewed Mr. Emmanuel Asante, the Finance & Accounts Officer. Before coming to GHAMFIN, he was a manager of a MFI in Kumasi, the capital of Ashanti Region and has been in the sector for more than 3 years, so he was very familiar with the problem we were examining. We bought some of their published reports, which contained helpful information but were not available anywhere online. Based on the information gathered from the Bank of Ghana and the GHAMFIN, we adjusted the interview guide we had prepared for the employees of the collapsed MFIs.

The accounts of the Bank of Ghana, the regulator and that of the GHAMFIN, the umbrella network body for MFIs in Ghana, pointed to the Ashanti Region of Ghana, Kumasi (the capital) in particular, as the hotbed of the problem of collapsing MFIs in Ghana. According to them, even MFIs that collapse in other regions usually have their headquarters (mother branches) in the Ashanti Region. The prevalence of the phenomena in the Region and the fact that most collapsed MFIs in other Regions of Ghana usually have their mother branches in the Ashanti Region, may mean that, information on collapsed institutions in the Region could offer a useful perspective for understanding why MFIs collapse in other parts of the country. We therefore decided to concentrate on the Ashanti Region in selecting collapsed MFIs for the study.

Selection of collapsed MFIs

Identifying the collapsed MFIs was as difficult as getting the former employees themselves for the interviews. If there were official list of collapsed MFIs in Ghana, this task would have been easier. It was part of our request to the Bank of Ghana and they agreed to email it with the response to the interview questions. However, the mail we received did not contain that information so we contacted them again to find out. The explanation given was that when the MFIs collapse, they do not take steps to officially file for bankruptcy with the Bank, so there was not any such list. This placed limitation on knowing the exact number and names of collapsed MFIs in the Region. For example, all but one of the institutions studied in this work collapsed in 2014 but there is only one reported case in the media of a collapsed MFI in 2014[8] and that MFI is not part of those studied

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"double-dip" – clients interborrowing from MFIs. But the Bank of Ghana said that the software though helpful, did not come from them.

[8] Ghanaweb – 29 January 2014: Lord Winners Microfinance swindles over 5,000 customers http://www.ghanaweb.com/GhanaHomePage/NewsArchive/artikel.php?ID=299140

herein. This means that many MFIs, just like the ones studied in this work, have collapsed unreported. Even when they are reported, except the case of Lord Winners Microfinance Company and Westbanc Capital Group[9], the names of the specific MFIs involved are not mentioned. For instance, none of the several media reports on the fifty MFIs that collapsed in 2013 mentioned the names of the specific MFIs involved.

As a result, we had to rely on the public to identify the collapsed MFIs. In our interaction with the public, even though several MFIs have collapsed in the Region, seven names kept recurring. After the collapse of the MFIs, customers who had their deposits with them had been chasing the former staff for refund of their money. Therefore, the former employees of the collapsed MFIs had become unwilling to open up to anybody on their former institutions, suspecting that such people could be disguised customers searching for their whereabouts to disgrace them. Getting access to them for interviews therefore was very difficult. The larger our target respondents, the more energy and resources we had to spend in seeking to have access to them. However, the possibility of losing them altogether was also becoming increasingly real. This made the researchers to narrow the search to the 'prominent' seven. To win their trust, we contacted people in their networks – close friends and relatives to lead us to them. After a long period of bonding and persistent calls, out of the seven, we were able to access the four (4) profiled below[10]. This means that the study did not cover all collapsed MFIs in the Ashanti Region – indeed,

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[9] Google Search of collapsed MFIs in Ghana returns the names of only Lord Winners Microfinance Company and Westbanc Capital Group. The other reports are general and do not mention the specific names of the MFIs involved.http://www.ghanaweb.com/GhanaHomePage/NewsArchive/artikel.php?ID=299140
http://www.ghanaweb.com/GhanaHomePage/NewsArchive/artikel.php?ID=291198

[10] Double Up Microfinance Company Limited began operation in 2009 with four customers and four staff. The company grew phenomenally in a spate of 5 years. Before folding up in 2014, it had 15 branches, all located in the Ashanti and Brong Ahafo Regions. Double Up's crisis started in October\ November 2013. The representative of Double Up interviewed for the study was a young HND in Accountancy holder from Sunyani Polytechnic who entered microfinance in 2011 around October/November until 2014 when Double Up collapsed. He is now into hire purchase. The interviewee started working with Double Up as Operations Manager, later as Credit Officer. He was then promoted to a Branch Manager and later as Head of Operations and Internal Auditor.

Work Up Microfinance Company Limited also started operation in 2011 with four branches at Agona, Wiamoase, Mankranso and Fade. In a matter of 4 years (2011-2014), the company grew from four to twenty-six branches. The products of Work Up included Current Account, Savings Account, Susu Accounts (Anidaso Susu and Normal Susu) and Investment Accounts (Work Up Trust and Work Up Gold) . It was a sole proprietorship company with limited liabilities. The interviewee from Work Up as at the time the institution collapsed was a Branch Manager. He started as a Marketing Officer in 2012, and later became a Marketing Manager at the Branch and Loans Recovery Manager and promoted to an Accountant and later Operations Manager before becoming a Branch Manager.

Grow Rich Microfinance Company Limited was incorporated as a private limited liability company on July 21, 2010 under the Ghana Companies Code, 1963 (Act 179). Full operations started on 13th September, 2010 at Obuasi, the head office with four (4) staff – the Manager, Operations Manager and two Client Relationship Officers. Grow Rich collapsed in the year 2013. As at that time, the company had three (3) branches. The interviewee for this study was working with the institution as a marketer. In their credit operations, Grow Rich focused on lending to very small and medium-sized enterprises with the conviction that these businesses create the largest number of jobs and make vital contributions to the economies in which they operate. The interviewee from Grow Rich is currently working with a Susu and loans company and he interlaced his submissions with his new experiences – comparing his new place to his former institution in explaining why it collapsed. However, he asked that his current institution's name not be disclosed because he did not have his superiors' permission to divulge information about the institution.

officially, the total number of collapsed MFIs in the Region is unknown. The four collapsed MFIs were the only ones selected and studied because they were the only ones that granted access.

Interview with the former employees of the collapsed MFIs

The use of interviews was appropriate for the study for its nature demanded it to be situated in the practical experiences of the stakeholders. As noted by Kvale et al, interview helps researchers to elicit insights into the subjects lived world (Kvale et al, 2009). Thus, interviews help to gather rich, deep and original information on the subject under investigation. During interviewing, the interviewer could probe responses and this helps to elicit further information. The interviews were one-to-one. Although there was a guide to help us focus on the relevant questions, the exchange was conversational. The interviewees requested that their identities and that of their institutions be kept confidential[11]. The names given to the collapsed MFIs are therefore pseudonyms. The tape-recorded interviews were later transcribed with the aid of Express Scribe Transcription Software. The transcripts of the five interviews, the focus group discussion with the staff of the Bank of Ghana and the Bank's written response to the interview guide we sent them constituted the main primary data for the study. When the interview transcripts are quoted in the analysis of the findings or anywhere as GHAMFIN (2015); BoG (2015); Dream Well (2015); Grow Rich (2015); Work Up (2015) and Double Up (2015), the referred page numbers are the ones in the transcripts.

Data collection problems and limitations of the study

Aside the challenges faced in accessing the respondents, there were other practical challenges and limitations that are worth acknowledging. First, the study was such that it was difficult to communicate its object to the former employees of the collapsed MFIs. It is naturally uneasy to be seated and 'drilled' (so to speak) on how an enterprise you were part of demised. We had to communicate the study to them in a more polite manner. However, this task worsened in the course of the interviews when critically incisive and seemingly personal questions had to be asked. We therefore felt smooth– talking them to be part of the study. The task of balancing our quest for knowledge with our ethical need to be open, transparent and honest with the interviewees was very uneasy.

Another challenge to this study is what constitutes a collapsed or bankrupt MFI. Whilst the news about collapsed MFIs is public knowledge, there is no official document or record on them. The reason as discussed elsewhere is that when the MFIs collapse, they do not take the legal steps

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Dream Well Microfinance Company Limited – The Company was licensed by the Bank of Ghana and started to operate on 2nd January, 2013 with 19 staff and one branch at Atonsu with a capital of hundred and twenty thousand Ghana Cedis (GH 120, 000.00). The shareholders were the CEO and his wife. The man had 80% and the wife 20% shares. Dream Well collapsed barely a year in business. Within 8 months of operation, the company established four branches. The respondent from Dream Well interviewed for this study was the Human Resource Manager who doubled as the Operations Manager. He holds a Bachelor of Arts degree in Publishing Studies.

[11] As indicated elsewhere, after the collapse of their institutions, customers who had their deposits with them have been chasing them for refund of their money. Hence, their unwillingness to open up to anybody on their former institutions and the reason for their request that, their identities and that of their institutions not be disclosed.

to file for bankruptcy with the Bank of Ghana. Therefore, the term collapsed or bankrupt MFI is used in this study to loosely imply that the MFI is not operating anymore.

Finally, the findings of this study is consistent with the general causal factors of the collapse of MFIs in Ghana noted by institutions like the Bank of Ghana, GHAMFIN, Ghana Association of Microfinance Companies (GAMC) and other scholarly studies. While some level of comparability cannot be denied, a small sample size of four collapsed MFIs in one region may limit efforts at generalization. A larger sample may be needed for such purpose. The above notwithstanding, the study offers an exploratory reference or benchmark for examining what drives commercial MFIs into bankruptcy in Ghana.

Findings: Causes of MFIs collapse in the Ashanti Region

This section analyses the information gathered on the drivers of MFIs into bankruptcy in the Ashanti Region of Ghana. The factors that caused the demise of the four MFIs studied were similar. Therefore, instead of case-by-case analysis, we did a composite analysis of the four cases. However, strikingly dissimilar factors and events are highlighted. The factors are grouped into internal and external factors. The analysis was done by reflecting on the primary data in the light of the literature on MFIs operations in Ghana as well as the broader literature on the collapse of

Table of Findings

Causes of MFIs collapse in the Ashanti Region

Cause of Collapse	**Microfinance Institutions (MFIs)**			
Internal Factors	**Grow Rich**	**Work Up**	**Double Up**	**Dream Well**
Unsustainable Returns	✓	✓	✓	✓
Disregard of due diligence	✓	✓	✓	✓
Mismanagement	✓	✓	✓	✓
Violation of Bank of Ghana Rules & Guidelines	✓	✓	✓	✓
External Factors				
Macroeconomic Instability	✓	✓	✓	✓
Collapse Rumour		✓	✓	✓

Source: Authors' fieldwork.

MFIs worldwide. In this way, whilst contextualizing the Ashanti case, we are still able to understand it in reference to the larger discourse in Ghana and elsewhere. The section is sub-divided into three sections: In the first sub-section, we present our table of findings depicting the causes of the collapse of the MFIs studied and analyze them as internal and external causes (factors) of the collapse in the second sub-section. In the final sub-section, we condense all the factors (internal and external) into an explanatory framework of drivers of commercial MFIs into bankruptcy in the Ashanti Region of Ghana.

As depicted in the table, similar factors accounted for the collapse of the four MFIs studied. But while the causal factors were similar, the narratives on how they manifested varied from one institution to the other. In the subsequent sub-section where we do a detailed analysis of them, we refer to the interview transcripts for the rich details on how different events culminated into these factors to cause the collapse of the MFIs.

Analysis of Findings

Internal factors

The internal factors relate to the operation strategies and managerial problems of the MFIs that contributed to their collapse. We in seriatim analyze them under these headings: Indiscriminate branching, offering of unsustainable returns/products to customers, disregard of due diligence, mismanagement and violation of the Bank of Ghana's rules and guidelines.

Internal factor 1: Indiscriminate branching. Microfinance supporters justify the flogging of high interest rates by MFIs on grounds that they are more prone to risk – they do not only have high operational cost, they also deal with the part of the population known to be highly risky[12]. The problem however is that in spite of the already risky profile and high cost of operation associated with microfinance, most MFIs rather pursue activities, which further increase cost instead of keeping it under control. The most common of such practices in Ghana is branching. As noted by Ayeh (2015), some MFIs have adopted physical branch establishment to expand outreach and increase their share of the market. However, "unknown to them, opening branches mean[s] more expenses on utility, salaries and other overhead expenses" (Owusu-Nuamah, 2014). They wrongly perceive "visibility as viability" (BoG, 2015: 3).

Our findings collaborate the view that the phenomenon of branching is common among MFIs in Ghana. Except Grow Rich, which maintained three branches for three years (2010 – 2013), the branch expansion of the other collapsed MFIs was stratospheric. Within a short period of five years (2009 – 2014), Double Up opened 15 branches, whilst Work Up grew from four (4) branches to twenty-six branches in a matter of 4 years (2011-2014).

Dream Well survived for only eight months but managed to open four branches. The interviewees confirmed that unbridled branching crucially contributed to the collapse of their

[12] They contend that they deal with clients with low level of education; involved in enterprises that are risky; live in areas that are known to have poor sanitation and therefore have high incidence of diseases; have no or little access to health care facilities and do not have reliable income (see Rhyne, 2010; Rosenberg, Gonzalez & Narain, 2009). 6 The 2013 revised-Bank of Ghana rules say that MFIs with 1 – 5 branches shall attract an additional paid-up capital of GH200, 000 for each branch

former institutions. Of course, once MFIs are in competition with one another, proximity to customers and visibility could be a competitive step to increasing outreach and market share. However, unrestrained branching could have a toll on the company. First, opening additional branches means additional cost and here not only in terms of among other things, new office furnishes and staff, but also additional paid-up capital[6]. Second, it takes time for an MFI to become financially viable so new branches certainly will in the short term experience loses – having too many new branches will therefore translate into incurring even more additional cost and this was true of the collapsed MFIs studied.

For instance, in the case of Dream Well, while their Atonsu head office was making expenditure around seven thousand six hundred Ghana Cedis (GH7, 600) a month, the income was only two to three thousand. The other branches too were making expenditures around GH 5000 and income around GH 1500 and GH 2000 (Dream Well, 2015). The benefits in opening new branches, which includes geographical diversification of portfolios, and widening of deposits therefore lost on them.

As observed by Ayeh (2015), the new capital investments in branching do not only add to the cost profile but also compete with available funds for on-lending purposes. And since loans and advances are the main sources of income for MFIs, growing more loses or not having the needed funds to grow quality loans will mean that the company cannot generate enough income to support its operations. How Dream well collapsed aptly reflects this: *"*Our main income was the interest we charged on loans. It got to a time; we had no money to give out as loans because we had invested them in creating branches" (Dream Well, 2015: 2).

Internal factor 2: Unsustainable returns to customers. This problem relates directly to the increased number of MFIs sequel to the financial liberalization and commercialization of microfinance in Ghana (Serrano & Sackey, 2015; Gallardo, 2001). Certainly, once many players are in competition for a given market share, they are bound to work at outpacing one another. And here, the eagerness to attract more customers and carve lion shares of an already saturated market on the part of each MFI tended them to collectively roll-out products that will endear more clients to them. However, the downside was that most of the products were unsustainable. As noted by Owusu-Nuamah (2014), some of these products were too costly to the companies; their income streams could not cover the expenses they were incurring in the form of interest paid to clients.

Whilst some MFIs were paying 30 to 35% interests on deposits (far in excess of the 24% interest even the Government pays on treasury bills), others were tripling three months-deposits as loans for customers. Some MFIs were also charging zero fees on deposits, while others shared cloths and cement to customers for opening accounts with them. All the interviewees independently confirmed that their institutions did one or more of those things to win customers. The challenge they subsequently came to face was sustainability. The only investments known to them[13] were treasury bills, real estate and buying fixed assets like lands, cars and of course,

[13] Some of them did not even invest the money; they were lying idle. For instance the interviewee from Dream Well said that they just sent their money to their mother bank, Fidelity Bank without investing it and were surviving on

creating branches and since these kinds of investments were illiquid, they could not fall on them when they became pressed. Moreover, the returns on the investments were not high enough for them to be able to sustain the huge interests they were paying to customers. As the Work Up interviewee admitted, "in the long run it became a virus because you will pay more interest" (Work Up, 2015: 2).

The MFIs inability to continually triple deposits as loans and pay the huge interests promised on deposits infuriated most customers who in turn in their numbers closed their accounts with them. This together with other factors accounted for the collapse of Work Up and Dream Well. However, as noted by Dupont (2005), financial institutions misfortunes could be contagious. The repercussions of offering unsustainable packages do not run down only the vogue MFIs offering them but could even transcend to others who may be giving reasonable interests. The point here is that the different customers of the competing MFIs compare and share their experiences with one another – they are friends, family members, they operate similar businesses, so this is expected. Some customers upon hearing the gargantuan interests and mouth-watering packages their friends were receiving felt short-changed, and therefore beseeched their MFIs for similar packages with threats of moving their accounts from them. Double Up suffered this fate: "You will see a MFI operating at high interest rates just to attract customers while charging low interest on loans. In our case, our customers were complaining that other MFIs were giving high interest so they moved their accounts from us to them the moment they heard, if I go there I will get better packages. This really affected us" (Double Up, 2015: 3).

However, those MFIs whose customer base phenomenally increased because of this could also not sustain the packages, so all the MFIs together lost the trust of the customers who were already battered by economic hardships. This led to deposit losses and increment in withdrawals.

Internal factor 3: Disregard of due diligence. Commercialization has brought increased competition for the business of low-income clients (Robinson, 2001) evidenced by the slew of MFIs established worldwide. This has make abundant availability of 'cheap' credit to clients. Increased competition among MFIs and clients' unbridled access to a multitude of microfinance providers as noted by Andersen (2009), remove the deterrence of strategic default that a monopolistic MFI enjoys and cause decline in portfolio qualities. Insisting on due diligence which generally is a bit time consuming then becomes disadvantageous to ethical MFIs for clients disturbed or delayed by due diligent procedures could easily access loans from competitors without or with little hassle. Borrowers could thus resort to "double-dip" and consequently become inter-indebted (over-indebted) to almost all operating MFIs by borrowing from one MFI to settle loans contracted from the other and vice versa.

This phenomenon treaded through the interviews with the former employees of the collapsed MFIs confirming an earlier finding of Grammling, (2009) and Kappel et al., (2010) studies that over-indebtedness and "double dip" is common among microfinance clients in Ghana. This is what the customers do as aptly described by the interviewee from Double Up:

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only interest on loans and some other minor charges on book purchases like new passbooks and also minimum balances.

> What happened is, ours, as we say, you will deposit and we will base on your deposit give a loan. Since the customer wants the loan, he would be working with a different MFI, and will be doing small small Susu [deposits] there, get about five hundred over there, take a loan of thousand from there, come and deposit that thousand with you, get about three thousand loan from you, go and deposit it in a different bank and take about ten thousand loan from them (Double Up, 2015: 7).

Similar practices in Nicaragua led a kite-maker in Jalapa to accumulate a record debt of $600,000 to 19 MFIs[14]. How this is able to happen is not magical. The competing MFIs have no means of verifying the debt profiles of prospective clients from competitors and do not control the loan disbursements of their competitors. Therefore, the clients are able to play them against one another as noted in Andersen (2009).

Most MFIs in Ghana lost significant share of their operating capital through this. While the problem reflects customers playing the competing MFIs against one another, materially, the root cause is the MFIs own methods of recruiting clients. In Ghana, as noted in Owusu-Nuamah (2014), the popular method of recruiting clients is this: The MFIs ask clients to contribute for a month or two for them to double or triple their balances for them as loans. This downplays the significance of proper assessment and monitoring of loans. Loan officer to client ratio surely would widen for the package as it did was certainly going to endear more customers to the MFIs. The MFIs therefore could not have enough time to look at loans that were defaulting because of the huge number of clients involved and also because they were always busily serving incoming clients until the loans hit the expiry region – by then, it becomes extremely difficult to recover. The clients identified this loophole and played the companies by robbing Peter to pay Paul.

Internal factor 4: Mismanagement. Effective risk management is crucial to achieving institutional self-sustainability in the microfinance sector[9]. However, among microfinance practitioners, reckless expenditure, poor risk management and mitigation have been widely noted (CSFI, 2008; 2009; 2010; 2012; 2014). The literature on the operations of MFIs have noted bad managerial practices as one major cause of MFIs failures globally (Sinclair, 2012; Bateman, 2013; 2010; CSFI, 2008) and this is also true of the case in Ghana.

For instance, Grow Rich was disbursing loans to customers about whom they had measly information and there was no requirement for a guarantor. Therefore, a significant number of their

[14] The "no pago" (we won't pay) crisis happened 2009/2010 in Nicaragua. The MFIs lent at high interest rates indiscriminately to borrowers who also inter-borrowed. Borrowers were taking money from MFIs to settle loans contracted from their competitors. This continued until the borrowers became incapable of paying back the loans. So the borrowers collectively defaulted on their debts and the MFIs suffered a profound crisis. (See a detailed account in Sinclair (2012) and also: https://nacla.org/news/no-pago-confrontsmicrofinance-nicaragua) 9 The commercialization of microfinance came along with competition for both funding and clients. To successfully operate a MFI, inter alia, effective management of cost structures to ensure sufficient returns to pay for the more expensive commercial funds is a prerequisite. MFIs operators must effectively manage risks and do cost control before they could achieve institutional financial viability and self-sustainability. The rapidly expanding loan portfolios and increased scope of operation of MFIs also substantially increase the risks in providing microfinance services. This requires MFIs operators to be cautious and undertake economically sound ventures (see Andersen, 2009).

customers bolted away with their money while some used loans from them to pay other loans contracted from their competitors. The case of Work Up was terribly bad. Astonishingly, the company was virtually dishing out money to any person who cared to apply for loan. The interviewee from the institution thus submitted: “When you come to us, we were having money, so we were not thinking about may be your guarantor, knowing your capacity that you can pay” (Work Up, 2015: 1) and they shockingly had a “Credit Committee” superintending over this practice! How do you give money out without thinking of the person’s capacity to repay? Clearly, as noted in the industry’s 2012 report, “the flood of money pouring into the microfinance sector is stirring up irrational exuberance and undermining discipline” (CSFI, 2012: 28).

Other profoundly bad managerial practices the study uncovered are poor risk management and reckless expenditure, so by the time operationally relevant software like the one for clients’ debt history verification[15] came, they (Dream Well and Double Up) were broke and could not procure them. Instead of investing in current assets, they rather focused on fixed assets – buying and furnishing big buildings for offices, buying cars, and other landed properties, forgetting that the monies necessarily were not theirs but people’s deposits. A study conducted by the Ghana Association of Microfinance Companies (GAMC) found that most MFIs operators fail to apply financial intermediation principles.[16]

The other factors relate to blatantly poor clients’ recruitment strategies. One of the interviewees submitted: “if we come to market ourselves to you and you say, oh go and come tomorrow when you come tomorrow I will pay, we will make sure that we come tomorrow. We were not thinking about how costly you are to us. We were thinking we like your money, your GH2 Cedis. If we spend GH10 Cedis today on you, tomorrow we will get more than that” (Work Up, 2015: 1). As if fortiori, spending huge resources to recruit clients’ flourishes their businesses so they could pay off the investments sank into recruiting them.

Ludicrously, the MFIs owners’ were nonchalant to clearly imminent risks. As stated by the interviewee from Work Up: “at the top management, sometimes you being on the ground, you will see something and you would recommend something and they would say nothing will happen. But you are on the ground. You will just report to them but they will sit there and watch it.” (Work Up, 2015: 2). We inquired further: “Is it not incredible that someone would put money in such a big business, those on the field will raise issues and report to them and they will disregard it. What was the motivation?” His response: “what they were very much interested [in] was the deposits – the money [that was] coming in. They were so bold enough [to say] that nothing will happen. They are too big to fail.” This finding collaborates that of Owusu-Nuamah (2014) that, one reason for the collapse of MFIs in Ghana is that the owners do not heed to technical warnings and advice from professionals.

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[15] The enormity of the problem of client inter/over borrowing from the MFIs has led to the introduction of a biometric software, which reveals the debt history when the fingerprints of potential loan applicants are taken.

[16] Ghana: Storm in Ghana’s microfinance industry not over - http://microfinanceafrica.net/news/ghana-storm-in-ghanasmicrofinance-industry-not-over/

Dream Well Microfinance Company deserves a special mention here for it had all the trappings of a badly managed company. That, the company could collapse just eight months of commencing business is enough testament to show how badly it was managed. Bemoaning on why they collapsed, the former Human Resource and Operations Manager who himself holds a degree in Publishing Studies stated that, from the top hierarchy to the last man at the bottom of management, none of them had well-grounded experience in banking nor microfinance. They were only receiving summary lectures from some consultants "once in a while". He thus submitted:

> In our case, you can't find anyone who had worked with microfinance for long, say 3 or 4 years nor any experienced banker manning the institution. We were meeting these people once in a while and they gave us summary lectures for two or three hours on how to operate an MFI. We only had 2 or 3 weeks training which in my view was not enough. We had educated workers with HND as minimum qualification but we all had no stint with banking nor microfinance before coming to Dream Well (Dream Well, 2015: 2).

No wonder they could uncover the fraudulent deals some workers perpetrated against the company only after collapsing. Related to this is what the interviewee from Double Up said that in their case, they found a lot of endorsed withdrawals and loans authorized by some of their managers who would not have endorsed them, had they the needed technical competence. As it turned out, Double Up recruitment was not merit based but on familial relations, giving credence to the Bank of Ghana's claim that most MFIs do not employ qualified personnel to manage their operations (BoG, 2015).

Generally, MFIs unlike established banks, the argument goes, are not manned by qualified staff (CSFI, 2008; 2009; 2012). The observation is that this problem is however acute in Africa and Sub Saharan Africa in particular, (CGAP & MIX, 2009) but also in other parts of the world – where well-educated staff at middle management level is difficult to come by and vulnerable to poaching from commercial banks (CSFI, 2009). As stated by one investment officer with the IFC in South Africa, there are "not enough good managers in [the microfinance] market" (CSFI, 2008: 15). The case of Ghana is not different. The Bank of Ghana has consistently complained about the competence of managers of MFIs in Ghana[17]. It is however profoundly ironic that after all the huge financial resources trickling into microfinance, the sector would keep on having difficulties in attracting and retaining talents.

[17] Dr Yaw Gyima-Larbi, head of microfinance at the Bank of Ghana stated the pervasiveness of "liquidity crisesis in Ghana is as a result of among other factors "incompetent staff" managing MFIs: http://www.microcapital.org/microcapital-brief-bank-of-ghanabog-to-raise-minimum-capital-requirements-for-microfinance-institutions-mfis-to-240k/ . This was reiterated in their written response to me. The GHAMFIN representative also bemoaned on this in my interview with him. Employees of MFIs are mostly HND Holders and Senior Secondary School leavers. It is costly for MFIs to hire degree holders but he noted also that increasing level of unemployment has led to the entering of microfinance by degree holders, he said.

Internal factor 5: Violation of Bank of Ghana rules and guidelines. In 2011, the Bank of Ghana (BoG) undertook to bring MFIs under a uniform regulatory framework (revised in 2013) [18] by establishing a four-tier classification of MFIs and their respective registration requirements as well as permissible activities. The guidelines also contain unambiguous rules, and procedures for establishing a MFI, opening new branches, loan disbursement and deposit taking. It clearly emerges that the collapse of MFIs in Ghana is also chiefly associated with violations of the BoG rules. As argued by one of the BoG's field officers, almost 85% of the collapsed MFIs violated the law. This was collaborated by the interviewee from Double Up: "We the MFIs were not following the regulations. That brought the collapse" (Double Up, 2015: 6). Here, we demonstrate how the causes of the MFIs collapse were primarily violations of the BoG guidelines by examining some of the causes of the collapse that were also violations of the Bank of Ghana's guidelines or rules and regulations.

First, in the case of Work Up, their major problem was unrestrained branching. As one of their competitors stated in a conversation with us, it was imaginably impossible for Work Up to do the kind of branch expansions they did without eating into the customers' deposits. The former Branch Manager of the institution would eventually confirm this when we interviewed him. We inquired whether they also had problem with using depositors' funds to establish branches and he responded: "Yes, considering 26 branches in 4 years" (Work Up, 2015: 3). The company in contravention of the BoG's requirement of them to raise additional paid-up capital of GH 200, 000 for each new branch, rather used customers' deposits to buy magnificent buildings as branch offices. They instead of using their own capital used their liabilities. So when the panic about collapsing MFIs in Kumasi engulfed the public, as the interviewee said himself, although they were strong, once the depositors' funds were not readily available for them to withdraw (because they had been invested in creating branches), further weight was added to the speculation that they were in fact crumbling. The company was certainly not going to survive when the customers rushed to their different branches for their monies. Work Up was also giving huge loans which were not only in excess of the margin their being a MFI allowed them to give, but also which in the words of the former Branch Manager, were huge enough for even established commercial banks like the Ghana Commercial Bank, United Bank of Africa and even Barclays to give to single borrowers.

In respect of Grow Rich, among other factors, the company collapsed because they disbursed loans to customers who owed other MFIs. In our conversation, the former Marketer of the company said that Grow Rich was sandwiched by more than four MFIs. (Those MFIs were operating before their Suame Branch –the name of the branch he was stationed was opened). At the beginning of their operations, they poached some customers, registered them and took deposits from them who also later came to them for loans. Apparently, most of these customers were already doing business with their competitors and had taken loans, which were due for repayment.

[18] 2011 Regulation is Appendix 2, Revision in 2013 is Appendix 3. See: ttp://rudar.ruc.dk/handle/1800/23859

Therefore, Grow Rich's proposal to give them loans when they deposit money with them was a timely blessing.

The only way Grow Rich could have known this was if it had the biometric software that helps to check potential loan applicants' debt history with their competitors. But the software could be used by only MFIs duly licensed to operate by the Bank of Ghana. However, as it turned out, the company was operating illegally without license so they ended up giving other people's deposits (because that branch was opened with mainly depositors' funds) to customers who owed other MFIs only for some to default, others to delay repayment until a long time. They had problems servicing the withdrawal demands of the customers of their earlier established branches and collapsed eventually. Schicks prophecy that "if [clients] over-indebtedness were left to spread [in Ghana], it would represent a serious risk on …. the financial sustainability of MFIs" (Schicks, 2011:1) could not have been fulfilled in any way better.

The case of Dream Well was not different from Work Up. They in contravention of the BoG rules and guidelines used depositors' funds to establish four branches in eight months. Although the BoG rules state that "not more than 25% of initial paid-up or additional capital for branches shall be spent on property, plant and equipment (capital expenditure)"[19], Dream Well was establishing branches at a cost equivalent to their total paid-up capital of hundred and twenty thousand Ghana Cedis. Rather than sticking to the rule of not giving unsecured loans exceeding 5% of their paid-up capital, the company was giving colossal sums to the tune of twenty and thirty thousand Ghana Cedis as loans, which were 24% and 36% of their stated capital, far in excess of the allowed 5%. As the interviewee from the company cried albeit belatedly, "we thought that would give us huge returns but repayment became problematic" (Dream Well, 2015: 2).

Finally, Double Up Microfinance Company just like the others, also honoured the BoG's rules mainly in the breach. The interviewee would thus yield when we pushed him on violating the Bank's rules and regulations:

> Okay some of them [the problems] were managerial issues. We should have known that our stated capital is this and do not give loans in excess of our stated capital. And we were not following the BoG [Bank of Ghana] rules. They have stated that we should not give a single customer more than 5% of our stated capital. But we did. Our company did. Most of the companies too. Our stated capital was hundred thousand that is one billion old Ghana Cedis but we were giving a single client about GH10, 000, which is 10% of our stated capital (Double Up, 2015: 3).

He would later complain that "as at now we have a customer who owes us about fifty thousand [Ghana Cedis]. It could have taken care of about three branches. If during the crisis, we had just 50% of that single customer's loan, we could have been able to solve our problem". So we asked, "alternatively, had you not advanced that loan, you could have had the money to settle

[19] See Appendix 3

your problems" to which he responded "yes, but we overlooked the policy, the BoG rules and regulations" (Double Up, 2015: 4).

Another major challenge Double Up had which relates to violation of the guidelines pertained to deposits. The BoG rules explicitly state: "the amount of a deposit transaction, including the balance on a deposit account at any time shall not exceed 5% of the institution's paid-up capital". Stated differently, the MFIs shall not take deposits that are 5% in excess of their stated capital. Yet, the company overlooked the guidelines and took deposits to the tune of eight, twelve and fifteen thousand Ghana Cedis respectively, which were 10%, 14% and 18% of their stated capital of one hundred and twenty thousand Ghana Cedis.

The reason the Bank of Ghana proscribes MFIs from taking huge deposits which are 5% in excess of MFIs' stated capital is to prevent a situation where they would not readily have money to timely serve customers because a huge depositor made a big withdrawal. That was precisely how the collapse of Double Up began. They experienced huge impromptu withdrawals by their big depositors at some of their branches, which made them delay unduly, the withdrawal requests of some of their customers since they had to call for cash from their mother bank, which also delayed. Some customers who became frustrated after waiting for a long time left for their houses, only for them to go and speculate to their friends that the company was collapsing for most people could not get their money, as others had to wait for a very long time. So the next day, fueled by some falsehood that the company was collapsing which was peddled by two bitter employees dismissed for fraud, more than a double of the previous day's number of customers beseeched the MFI, demanding to withdraw their monies. And as the interviewee explained "because you have made provisions not for the doubled number, you can't satisfy the new batch, so they also [did] spread the news, then the speculations continued and the panic too continued" (Double Up, 2015: 1). The radio stations picked it up, heightening the speculation, so people rushed to their different branches to cash their monies. As the GHAMFIN interviewee submitted, "even [for] commercial banks, Barclays or Stanbic Bank, if 50% of its customers jump into the bank and withdraw their money, the bank would collapse" (GHAMFIN, 2015: 3). So, Double Up eventually collapsed.

The additional challenge to this problem of violation of the rules and guidelines on microfinance is that the huge number of microfinance institutions affects the ability of the oversight body– the Bank of Ghana– to efficiently regulate the sector.[20] This explains why the MFIs could break so many of the rules and operation guidelines in respect of for instance, branching and operating without license, and why Ponzi schemes could survive for a long time until customers are defrauded. The MFIs umbrella associations could have been useful in this regard. However, as noted by the GHAMFIN interviewee, the absence of legal backing for the umbrella associations to sanction limits their ability to effectively peer-regulate their members alongside the Bank of Ghana.

[20] Microfinance companies back licence-freeze:
http://www.ghanaweb.com/GhanaHomePage/business/artikel.php?ID=327983

External factors

External factor 1: Macroeconomic instability. The aftermath of the global economic crisis has led to the revision of the hitherto claim that MFIs operate in a market that depends more on microeconomic conditions than macro fluctuations. MFIs as the narratives were, inhabit their own business world[21]. Observers as well as practitioners have been rudely awakened to the realization that after all, MFIs are not insulated from the shocks in the 'real economy' – there are too many links through financial markets, credit conditions and the fortunes of their customers (CGAP & MIX, 2009; CSFI, 2009; 2010). The "experience of 2009-10 has shown microfinance to be a lot more susceptible to macro-economic shifts than previously thought" (CSFI, 2012: 38). The operations of MFIs are thus subject to broader macroeconomic trends.

Collapsing MFIs or Susu companies and financial service providers, (as they were then called), is not a recent development in Ghana. Belnye (2011) catalogues some instances of MFIs collapse, which occurred as far back as 2008. That of 2013 became headline news because they were not only widespread but also continual and the development is even yet to abate. The widespread collapse of MFIs in Ghana since 2013 contemporaneously happened with a serious economic crisis in Ghana for it to be sheer coincidence. It therefore was not surprising that macroeconomic factors prominently featured among the interviewees as a major cause of the collapse of their MFIs.

Ghana in 2013 tumbled – all the macroeconomic fundamentals plummeted. With an election to win in the year before, the government commissioned a budget deficit of GH¢8.7 billion ($2billion) amounting to 12.0% of GDP and this would further cripple all the sectors of the economy. Growth decelerated to 4.4%, considerably lower than the growth of 7.9% achieved in 2012 (AfDB, OECD, UNDP, 2014). The country's currency, the Cedi depreciated throughout 2013, becoming West Africa's worst performing currency according to Bloomberg[22]. Lending rate hovered around 30%. In trying to reign in the fiscal deficit, the government imposed new taxes, increased the thresholds of existing ones and increased utility tariffs, and petroleum prices. The combined effect of all these were heightened economic hardship and increased cost of doing business and borrowing which was further convoluted by energy crisis. The MFIs received their fair share of the economic miasma.

Acknowledging the paths by which macroeconomic trends affect MFIs, the Microfinance Banana Skins publications noted that it could be directly through interest rates, and general business conditions and indirectly, through clients who have been hit by economic difficulty or retreat from buying financial services (see CGAP & MIX, 2009; CSFI, 2009; 2010; 2014). Both

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[21] Marcelino San Miguel, president of Fundacion San Miguel Arcangel in the Dominican Republic, is quoted at page 30 of the 2008 Banana Skins Publication as saying: "In the medium and long terms, MFIs operate in a market that depends more on microeconomic conditions than macro fluctuations, though macro trends affect everything ... But I do not believe that this determines the survival and operational management of a successful MFI."

[22] Ghana's Cedi Falls to 8-Month Low as Budget Gap Concerns Mount: http://www.bloomberg.com/news/articles/2015-05-07/ghanas-cedi-falls-to-8-month-low-as-budget-gap-concerns-mount

situations occurred simultaneously and contributed to the collapse of MFIs in Ghana. As submitted by the GHAMFIN interviewee,

> The economy did not help in the first place. The Cedi-Dollar issue. The whole idea of investments - when Government was borrowing from the banks and the MFIs were also borrowing from the banks. The Banks will give the money to the government. Because the Treasury bill went up, the banks were not giving the money to the MFIs again. The last 2013\2014, it was a huge issue. Microfinance really suffered. Genuine people had their business collapsed. Not because they were rogues. Some of them did not embezzle the money. Some have gone to people as loans, some into real estates and it takes time to mature and the people [customers], they need their money, they do not have time to wait. Had the MFIs have support from the banks; they could have waited for the investments to mature (GHAMFIN, 2015: 4).

Thus, not only did the continuous depreciation of the Cedi and high cost of lending crippled the MFIs, but also the Government crowded them out of the lending market. Except the Grow Rich interviewee, all the former employees of the collapsed MFIs said that their banks failed them when they turned to them for help. The interviewee from Work Up lamented: "They failed us. We were having a mother bank but they failed us. If they had supported us, but they failed us" (Work Up, 2015: 3). The former employee of Double Up shared similar sentiments: "In our case we did not even wait for the crisis, we saw it coming, so we applied to one of our banks. They approved to grant us the loan. We gave them the needed collateral and everything they wanted and even paid the commitment fee. They later wrote to us that they are not ready to give us the loan" (Double Up, 2015: 2).

Of course, lending to Government through lucrative treasury bills with ever skyrocketing interest is more rewarding and less risky than to MFIs who are on the verge of collapse. In the heat of the economic crisis, one surest way the MFIs could have sustained their operations was, they like the commercial banks could have also invested the depositors' money in the then lucrative treasury bills. However, the little they had in their coffers after investing in creating branches did not stay with them for long. The customers who were being battered by the economic hardships were not making deposits again, they rather were withdrawing their savings to support family life. The former Human Resource and Operations Manager of Dream Well thus stated: "People had saved with us. But because of economic hardship, they were just making withdrawals" (Dream Well, 2015: 3).

External factor 2: 'Collapse rumours' leading to panic withdrawals. When people become concerned about risk to their savings, their first reaction generally is to withdraw their money[23]. Panic withdrawal poignantly featured among the reasons stated by the interviewees as the causes of the collapse of their former institutions. Sequence of events heightened rumours and public speculation about the MFIs looming collapse, which then incited depositors to not only rush

[23] See Carlson, (2005) and Calomiris & Gorton, (1991) for a review of theories on bank panics.

to withdraw their funds but also, discontinue making deposits. Whilst this experience was commonly experienced by the collapsed MFIs, the underpinnings were different.

It is trite learning in banking that if individual depositors or investors become worried about the health of financial institutions entrusted with their money, their attempts to protect their savings by withdrawing them can force otherwise healthy institutions into liquidation, and so can spread the impact of a shock to other institutions (Pettis, 2003; Dupont, 2005). Such cases lead to scramble among investors and depositors to withdraw their money not only from the institutions at the center of the crisis, but also from any institution caught up in the rumours. As argued by Dupont "contagion can occur as bank depositors reassess the viability of other banks when they observe either suspension or bank runs at a nearby bank. One failure, or the possibility of failure at one institution, may be thought to reveal information about other potential failures even if no actual link exists between the two institutions (Dupont, 2005: 416).

The manner in which Work Up Microfinance Company Limited collapsed falls on all fours with the above explanation for how financial institutions or banks could collapse. The people of Kumasi, the capital of the Ashanti Region considered Work Up and another MFI as the two biggest and most 'credible' MFIs in the Region. One of their competitors said the two were seen as the "mother MFIs in Kumasi". Unfortunately, that MFI (name withheld) collapsed and this generated rumours that, then Work Up also should be having solvency challenges. The former Branch Manager thus submitted: "One thing is, last year for instance, a lot of MFIs faced crisis. We were still standing but one MFI called [name withheld] collapsed. So when people got to know that [that MFI] had been in crisis, people began to come out with a lot comments that our company too is collapsing. Meanwhile it was strong…. they were just spreading it. Work Up is collapsing so if you have money at Work Up, just go and withdraw your money" (Work Up, 2015: 2). Some employees of the institution, seeing the increasing rate of withdrawals alerted their families and friends who had deposits with the company to also rush and withdraw their money and this fast-tracked the run on the institution.

In the case of Double Up, some bitter employees dismissed for fraud began peddling falsehood that the company was collapsing. So the customers of that branch beseeched the company to withdraw their deposits. Apparently as noted earlier, the company had experienced huge impromptu withdrawals at a different branch that made them unable to timely honour the withdrawal requests of some customers, so they told them to come the next day. This, the interviewee said, gave credence to the dismissed employees' false claim that the company was collapsing in fact and occasioned panic withdrawals when some radio stations too picked up the rumour. He thus submitted:

> There were some staff among us who were caught manipulating the system and causing fraud…. When they were arrested and granted bail, they started spreading bad news about the company in the nearby villages that they were working with the company and it's collapsing so they should come and withdraw their monies and that is when the panic withdrawals began. The radio stations

picked it up and people thought we were collapsing and they all came for their money (Double Up, 2015: 1).

The case of Grow Rich was also related to fraud. The company had some iterant bankers (popularly called mobile bankers in Ghana) who went out to mobilize deposits from the customers. But some of them under-reported the deposits on the mobilization forms they returned to the office, even though they had correctly recorded them in the customers' passbooks. For instance, a mobile banker will take GH1, 000 from a customer and record the same in the customers' passbook but on the mobilization sheet that he is to send to the bank (office), he would underrecord it as GH500. And the company was not doing regular internal auditing which could have helped them to detect this in advance. Therefore, balance reconciliation disputations usually arose anytime the customers went to the institution to do withdrawals or check their account balance. Grow Rich then paid for this with its reputation for the customers went about telling others that "the institution is not credible, they do not record properly when you make deposits" (Grow Rich, 2015: 4). Not only did this lead to some customers closing their accounts with them, deposits too flaked.

In respect of Dream Well, upon seeing rampant withdrawals, the company decided to control it by insisting that, for certain amounts, customers shall give them prior notice before they come to withdraw. However, most customers neglected this, and when the company dishonoured their cheques for failing to give them prior notice, they with fury ran to speculate that the MFI was having liquidity crisis. This led to "panic withdrawal and it really caused us a lot", the former HR and Operations Manager stated (Dream Well, 2015: 3).

Pettis (2003) contends that in the world of finance, a collapse in institutional credibility is highly disturbing for it can quickly lead to liquidity crisis. As noted earlier, when panic occasions, it mostly begins to contagiously infect otherwise healthy institutions in a spreading and self-reinforcing wave of panic. Banking panics are self-perpetuating, and once public trust disappears, it takes extraordinary and costly measures to defend the financial system. Pettis may not be far from right for as the interviewee from Double Up stated,

> For now, people in Ghana do not like microfinance especially in the Northern sector, Ashanti and Brong Ahafo. Even up to now those [MFIs] operating in the northern sector, here in the Ashanti region are suffering; they are still facing the panic withdrawal because the people here have the negative impression that for MFIs, they will run away with your money. So right now the deposits have reduced, they are only coming for withdrawals. I have met a lot of my colleagues working in other companies, they are complaining. Still they are sinking. They do not receive as much deposits as they used to (Double Up, 2015: 4 &6).

We did an anecdotal random sampling of people's views on MFIs operations in Ghana and the result was not different from what the interviewee stated. Some Ghanaians are of the view that the MFIs are there for short-term purposes – to make money and diversify into other areas. Therefore, once they mobilize enough funds from people, then they lock up their offices. Though quite cynical, this perception reflects the high public distrust and the fast ebbing public confidence in MFIs, which has even been noted by the microfinance companies themselves[24]. This reinforces Boateng & Boateng (2014) recent study finding that only few Ghanaians trust and have confidence in MFIs, most do not. This rather unfortunate development bears watching!

Drivers of Commercial MFIs into bankruptcy in the Ashanti Region of Ghana

Below is a diagrammatic representation of the drivers of commercial MFIs into bankruptcy teased out from our analysis of the findings of the study.

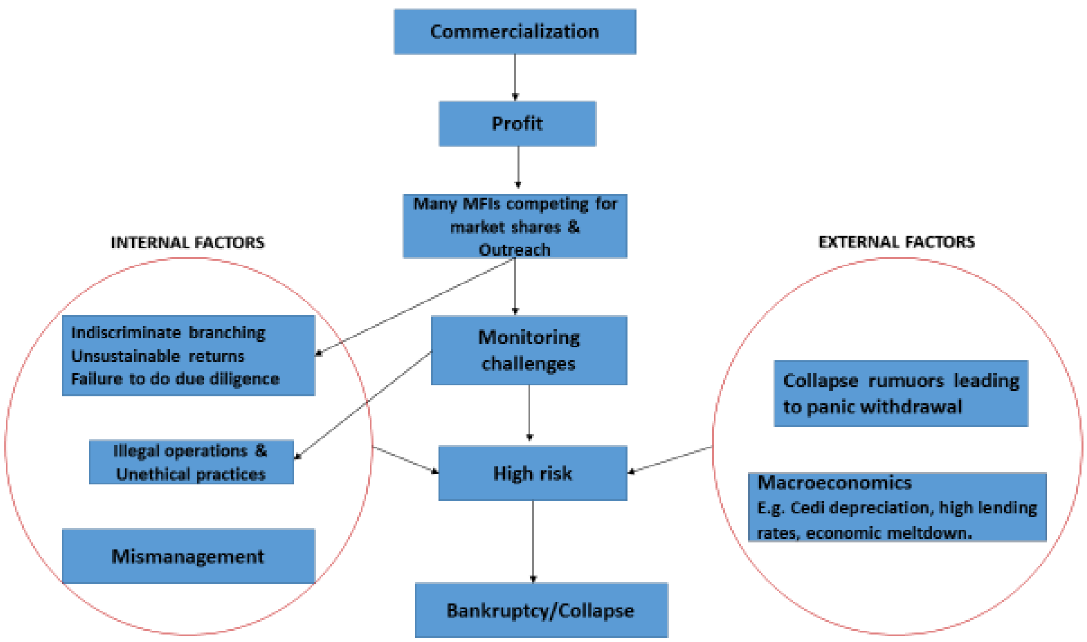

Figure 1: Drivers of Commercial MFIs into bankruptcy in the Ashanti Region of Ghana.
Source: Authors' fieldwork**.**

As shown in the diagram, upon commercialization, many MFIs have entered Ghana's microfinance sector to compete for profit and 'serve' poor people. However, the desire to expand outreach and increase market shares lead them to undertake suboptimal practices such as indiscriminate branching, offering unsustainable returns to customers and disregard of due diligence. Because of the increased number of MFIs, the BoG is not able to monitor, identify and prevent in advance, illegal operations and unethical practices. Some MFIs are also badly managed – the managers engage in unreasonably risky and improvident investments. Additionally, there is a growing distrust for/waning public confidence in MFIs in Ghana (not just in the Ashanti Region – see Boateng & Boateng (2014)). Ghanaians are increasingly becoming distrustful of MFIs so they rush to withdraw their savings and discontinue transactions with them at the slightest hint of solvency challenges – whether founded or unfounded. All these practices and factors coupled with

[24] MFIs seek to restore shaken confidence:
http://www.ghanaweb.com/GhanaHomePage/business/artikel.php?ID=331368

macroeconomic factors (such as increased cost of living and doing business, Cedi depreciation, spiralled inflation, decelerated growth, high lending rates) compositely heighten the already risky profiles of the MFIs business of providing microfinance services, causing them to collapse.

Discussion and implications of findings for policy

First, the issue of MFIs managers breaking laws, disregarding due diligence, taking bad, unethical and unduly risky decisions just to expand outreach and increase market shares fits into the larger problem of "overtrading" identified among MFIs in Ghana. "Overtrading in MFIs occur when they expand their operations too quickly or aggressively by opening up new branches in hopes of increasing profits by expanding customer base and attracting more deposits" (Addo, 2014:4). Thus, confusing visibility with viability. The incidental problem is that the MFIs tend to misapply capital when they open up new branches by diverting working (and mostly depositors') capital to complete. They as noted by Owusu-Nuamah (2014) therefore end up unable to meet depositors' withdrawal requirements timely, and on-demand because of insolvency. Such situations create the attendant problems of panic withdrawals that may cause MFIs failure, as was the case of the collapsed MFIs studied. Some studies (e.g., Nair & Fissha, 2010; Hayder, 2002; Ghartey, 2007; Addo, 2014) have observed that a high percentage of MFIs in Ghana fail in the first five years of operation, often as a result of overtrading and financial strain. This study firmly collaborates that finding for none of the MFIs in this study survived beyond five years.

Related here are questionable managerial decisions including huge investments in uneconomical ventures. Such practices mostly do not only beg due diligence, but also violate the rules and guidelines of operations set by the BoG. What flows from this is that the MFIs depart from their lanes, terms, and conditions of their license by giving loans and taking huge deposits in excess of what the law allows them. At issue here are not just economically improvident decisions, disregard of due diligence and/or violation of laws, but the MFIs essentially push into business areas that they do not have the right skills and management tools for. But as Addo (2014) noted, "the size of the sheep can never be equal to the size of the elephant even if it aims at multiplying its size through overeating" (p.6). MFIs are never designed as commercial financial intermediaries, so once they started behaving like commercial banks, it was only a matter of time for them to collapse. As the interviewee from Work Up admitted, it was "like having bitten more than you could chew, your jaws will pain" (Work Up, 2015: 2).

In the study, one thing was consistent and true of the collapse of all the MFIs – something facilitated the collapse. The common factor was 'collapse rumours' leading to panic withdrawals. One surest way by which any financial institution could collapse is if the agents collectively decide to redeem their claims, all of a sudden, called panic withdrawal. However, people do not just panic-withdraw, something activates it.

As confirmed in this and other studies, there is growing public mistrust for MFIs in Ghana. Therefore, the slightest suspicion lead customers to protect their savings by seeking to withdraw them. And since the MFIs had used their deposits imprudently to create branches and buy illiquid assets, they certainly were not going to be able to timely honour the numerous withdrawal requests, thereby leading to the fulfilment of the depositors' belief that the MFIs were in fact collapsing. Against this backdrop, whilst acknowledging the instrumental role the 2013 macroeconomic instability played in the collapse of MFIs in Ghana, it appears to us and we contend accordingly that, it only contributed to the huge number and the pervasiveness of the collapse – the macroeconomic problems were necessarily not part of the root causes.

What then are the overall causal findings or answers to why MFIs collapse in the Ashanti Region and probably Ghana? We take seriously the view that any attempt to explain organizational failure will not be complete unless the interplay between contextual forces and organizational dynamics are taken into account (Mellahi & Wilkinson, 2010). However, sometimes, as noted by Gillespie & Dietz (2009) and this is true of the findings of this study, the "locus of control for the failure could be internal to the organization, even though the context for the failure may involve external influences" (p.129). The key argument here is that failure is primarily caused by internal factors even though, external threats may exacerbate it.

The MFIs against basic principles of financial intermediation, improvidently invested depositors' funds in creating branches, illiquid and other assets which were irrelevant to their operations; they offered costly and unsustainable products; broke the rules and disregarded due diligence practices, all in the name of increasing outreach and market shares. Certainly, they were sowing the seeds of their own destruction by increasing the risk profiles of their already risky business of providing microfinance services. This is in line with Gillespie & Dietz (2009) observation that organization failure could result from "a single major incident, or cumulative series of incidents, resulting from the action (or inaction) of organizational agent" (p. 128). Clearly, the MFIs "shot themselves in the foot" as contended by Owusu-Nuamah (2014).

Nevertheless, as rigorously argued by Thomas Hobbes in his time-honoured theory of Leviathan, if people on their own would do the right thing, then there will be no need for institutions and laws. This issue even becomes more serious when raised in tandem with the critical question of what happens to the depositors' funds after the collapse of the MFIs[25]. The cost of the collapse is disproportionally borne by the poor clients. Thus, the actual harm arising from the

[25] Microfinance customers generally lose their savings when the MFIs collapse. The interviewees from Double Up, Grow Rich and Dream Well said that they could not refund the customers monies to them. Even the few who were fortunate could not get full refund because the companies did not have enough funds. In the case of Work Up, the interviewee said some of the clients who had huge deposits took them to court and the court froze a few of their movable assets but the value of the assets could not even defray the monies they owed them. So I asked, "What about the petty traders who saved with you"? He answered: "They were all silent. They could not do anything". What was monumentally outrageous is that the owners of the MFIs went home with their assets unscathed, virtually – after losing outrageous number of poor clients, their life savings. They still kept the assets – the buildings and premises used as offices, the furniture, plants, cars, landed properties and most of the illiquid assets into which they invested the customers' funds. None of the former employees of the supposedly 'bankrupt' MFIs said their assets were liquidated. E.g. The interview from Dream Well is now into hire purchase and he operates from one of the defunct company's offices in Adum, the central business district. Not only the assets, but also crucially, except Grow Rich, which was operating illegally, all the other collapsed MFIs still have their operation licenses intact. As they stated, the Bank of Ghana has not issued them "red card" yet. Therefore, when the dust settles, they are unhindered – they could easily jump back into business again. The interviewee from Grow Rich even hinted that the directors of the defunct company are now back in business with a different brand name. This raises a serious concern about the manner the Bank of Ghana handles the issue of collapsed MFIs. Why must MFIs operators who could not refund poor clients savings that they recklessly misapplied still retain their licenses and the assets of the companies deemed to have gone bankrupt?

collapse is not borne by the operators of the MFIs rather, by the customers – the poor people and the wider (microfinance) community. It seems the MFIs operators would not take their responsibility to be prudent with people's money seriously and would need to be whipped to comply as urged by Hobbes.

The imposed duty is on the Bank of Ghana to regulate and protect the public from Ponzi schemes, unscrupulous people and financial institutions as well as protect consumers and investors funds from being (mis)applied by MFIs operators. However, as found in this study, the Bank has an oversight challenge to constantly monitor and prevent illegal and unethical activities timely and in advance. The question then is: What are the implications of the findings of this study for policy, in dealing with the problem of collapsing MFIs and its attendant problems in Ghana, taken into consideration the Bank of Ghana's oversight challenges?

One thing we learnt from the former Marketer of the defunct Grow Rich Microfinance Company who now works with a savings and loans company is that, knowing that, the Bank of Ghana field monitors could come and check them impromptu, they are always careful to organize their affairs. The Bank of Ghana may therefore consider creating in the other regions of Ghana, subsidiaries of the OFISD, which is now centralised in only Accra to enhance nationwide monitoring. Relatedly, devolution of sanction powers to the (umbrella) associations of the MFIs who generally have offices and personnel scattered around the country compared to the Bank of Ghana may be helpful. With such powers, the MFIs associations could peer-regulate alongside the Bank and this would further enhance knowledge sharing and (peer) learning of best practices.

Second, the Bank and the Ministry of Finance financial literacy campaign must be intensified and not only in the urban towns but also the rural areas where the people who generally because of their level of literacy and location, easily become targets of unscrupulous people and Ponzi schemes.

Third, the current (inverse burden) state of affairs where poor customers irretrievably lose their savings but owners of MFIs deemed collapsed still retain the assets of the defunct companies is grossly inequitable. Why should customers who had no hands in the collapse of the MFIs lose their savings only for the owners to go home with booties? Of course, the public has to be as vigilante as poor customers could come together for mass action against MFIs. Nevertheless, the imposed duty is on the Bank of Ghana to follow every report and rumour on collapsed MFIs – whether licensed or unlicensed, audit them and liquidate their assets to pay off depositors just as they have announced to do in the recent case of DKM Microfinance Company[26].

Fourth, criminal prosecution of MFI operators who recklessly play with poor people's money must begin in earnest to serve as deterrence. There is also an urgent need for deposit insurance. This would not only protect clients when the MFIs collapse but also the strict conditions attached to insurance would make MFIs' operators become provident in their operations since insurance companies are unlikely to pay for their unconsidered recklessness.

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[26] BoG turns down appeal of DKM microfinance customers: http://citifmonline.com/2015/06/02/bog-turns-down-appeal-of-dkmmicrofinance-customers/#sthash.gN43e8PI.dpuf

Conclusion

The study was instigated by the 2013 mammoth collapse of profit – accumulating commercial MFIs in Ghana. The causal factors were grouped into internal and external factors. Even though the context of the collapse involved external influences like collapse rumuors and macroeconomic factors, the loci of the collapse were internal to the MFIs and manifested as indiscriminate branching, offering of unsustainable packages, disregard of due diligence, mismanagement and violation of the BoG's rules and guidelines.

The unduly risky manner in which operators of MFIs (mis)apply investors and customers' funds brings into question their moral responsibility to be cautious with poor people's money and this explains the growing public distrust for MFIs in Ghana. The MFIs themselves have recognized the aversion of the public to their operations. However, going forward, to trust that, that in itself or alone would bring providence in their operations would be a very expensive optimism. The monitoring challenges of the Bank of Ghana is seriously noted but the evidence points to more compliance and ethical operations when MFIs tails are tightly held to do so.

Accordingly, we recommend a two-pronged strategy to tackle the issue of collapsing MFIs and its attendant problems in Ghana. The first strategy is risk-averting/reduction oriented and includes progressive decentralization of the Other Financial Institution Supervision Department (OFISD) of the Bank of Ghana and legal empowerment of the MFIs associations to peer-regulate alongside the BoG. This would help to timely and in advance identify and prevent unethical and illegal operations everywhere in Ghana as well as promote peer learning and knowledge sharing. The second strategy is oriented towards protecting MFIs clients and the public from unscrupulous people and financial institutions. This includes introduction of deposit insurance; intensification of financial literacy campaign; tracking reports and rumuors on MFIs collapse–whether licensed or unlicensed, to audit them and liquidate their assets to pay off depositors as well as criminal prosecution of unscrupulous people who recklessly apply microfinance clients and investors funds on unduly risky ventures.

Authors' note: This is a shortened version of a thesis report. See the full version, appendices and other related documents here: http://rudar.ruc.dk/handle/1800/23859

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