IMPACT OF CREDIT RISK MANAGEMENT PRACTICES ON MICRO FINANCING THE POOR FOR POVERTY ALLEVIATION IN AFRICA: INSIGHTS FROM GHANA

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DECLARATION

I, Victor Atiase, student number [redacted], do hereby declare that this research report submitted to the Central University of Technology, Free State for the degree of Doctor of Business Administration is my own independent work and has not previously been submitted by me at another university/faculty. I further cede the copyright of the thesis in favour of the Central University of Technology, Free State.

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ABSTRACT

Although Africa has experienced encouraging economic growth over the past decade, the livelihood and living conditions of most on the continent does not reflect this trend. Ghana is no exception. Even though Ghana has made modest gains in economic growth and productivity, livelihoods, unemployment, diseases and above all the number one enemy poverty among the Ghanaian population continue to soar above acceptable limits.

In most developing countries like Ghana, microfinancing the poor for them to engage in entrepreneurial activity has been used to fight this number one enemy, poverty.

To protect their investment, microfinance institutions (MFIs) apply credit risk management. Although credit risk management is essential to safeguarding the credit portfolio, deposits and improve loan recovery, it is essential that MFIs adopt pro-poor credit risk management practices in order to provide access to entrepreneurial finance to these 'bottom of the ladder' who are often marginalised from access to finance from mainstream banks. The problem is that, when credit risk management practices are too stringent, it creates the potential of denying the poor access to entrepreneurial finance, with consequences for poverty reduction. In fact, some commentators strongly suggest that financing the poor to engage in entrepreneurial activity is hampered by less than pro-poor credit risk management practices of lending institutions. This assertion has yet to be tested on MFIs in the developing country context including Ghana where microcredit has become a flourishing business. A knowledge gap therefore exists insofar as the impact of credit risk management practices on poverty alleviation through microfinancing the poor to engage in entrepreneurship is concerned.

To bridge this gap, this study investigated the microfinance credit risk management practices of MFIs operating in the Greater-Accra Region of Ghana to assess the extent to which such practices hinder the poor from accessing entrepreneurial finance and impact thereof on poverty alleviation/ reduction. In the study, the Greater Accra Region is used as a test case for Ghana by involving respondents from purposefully selected 141 MFIs in the region comprising of 378 officers of MFIs and 1,235 MFI loan beneficiaries.

The results reveal that stringent credit risk management practices exist among MFIs. It was also found that most of the poor who are willing to engage in entrepreneurship are unable to obtain finance due to credit risk management practices that they perceive as are too stringent. Furthermore, it was found that MFIs that adopt pro-poor credit risk management practices attract more poor clients, and such clients become successful in their businesses.

Based on the above and other findings, recommendations are made which if carefully implemented can make microcredit risk management pro-poor, while minimising credit risk for MFIs. Recommendations are also made for further research.

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CHAPTER 1: INTRODUCTION TO THE STUDY

1.1 INTRODUCTION

This study aims at examining microfinance credit risk management practices and its impact on poverty alleviation through entrepreneurship in the Greater-Accra Region of Ghana. The study examines critically the impact and outcomes of such strategies and methodologies used by Microfinance Institutions (MFIs) in managing their credit risk and its effect on poverty reduction.

Empirically, the study investigates the extent of microfinance credit risk management practices that exist in the selected MFIs, and whether these practices are having a negative or positive effect on microfinance clients in its mission of reducing poverty in the Greater-Accra Region of Ghana. Previous studies have shown that microfinance credit risk management techniques can improve the credit portfolio and institutional viability of MFIs (Colquitt, 2007; Goldberg & Palladini, 2010). However, the effect of credit risk management techniques of MFIs particularly in the case of Ghana is yet to receive adequate research attention. The expectation is that both the MFIs and microfinance clients, in this case, are supposed to be entrepreneurial in approach as far as the delivery of microfinance services and the management of their Micro, Small and Medium Enterprises (here after SMMEs) are concerned.

The main argument in this study is that, even though microfinance credit risk management practices are essential to safeguarding the credit portfolio, deposits and improve loan recovery of MFIs in the Greater Accra region of Ghana, it is essential that these MFIs adopt credit risk management practices that are pro-poor and do not unduly constrain the usefulness of it and thereby further widens the poverty gap.

This introductory chapter provides a general background to the study including the definition of the various concepts such as microfinance, poverty, credit risk management and entrepreneurship. The chapter also indicates the motivation for the study; the statement of the research problem; the aims and objectives of the study; the research questions, the theoretical framework for the study, the research methodology, the organisation of the study and concludes with the definition of key terms used in the study.

1.2 DEFINING MICROFINANCE

Microfinance is a generic term that is used to refer to both informal and formal arrangements that are geared towards offering financial services including a non-collateralized loan to the poor by using a market-led approach and innovative lending technologies on a sustainable basis (Hartarska & Nadolnyak, 2007; Zulfiqar, 2014).

Ocasio (2013) has explained the term to mean the provision of loans and other financial services having the poor in mind in an attempt to end their poverty by promoting self-employment and entrepreneurship. These financial services according to Dzansi & Atiase, (2014) involve the provision of services such as savings, microloans, insurance,payment services and money transfers to poor people living either in rural or urban areas who are unable to access such services from the formal financial intermediaries such as banks.

1.3 THE CONCEPT OF POVERTY

Poverty is a multidimensional phenomenon which means the denial of choices opportunities, and a violation of human dignity (Nolan & Whelan, 2009; Akindola, 2010; Andy, 2011). The concept also means the inability to feed, clothe and provide shelter for oneself. It means not having a sustainable financial ability to access health, education, and other necessities of life such as food clothing and shelter (Jenkins & Micklewright, 2007).

Broadly, poverty also means the lack of basic capacity to participate effectively in society, insecurity, powerlessness and exclusion of individuals, households, and communities. It means susceptibility to violence, and it often implies living in marginal or fragile environments, without access to clean water or sanitation and having no access to credit (Coromaldi & Zoli, 2007; Gobind, Allah, Mohammad & Riaz, 2008; Nolan & Whelan, 2009; Akindola, 2010; Andy, 2011).

1.4 MICROFINANCE AND POVERTY REDUCTION

Microfinance has been considered over the years as one of the powerful tools of poverty reduction, especially in poor countries. It has been considered that the entrepreneurially poor can be assisted with a microcredit to change their lives through a venture creation process whereby they can create employment for themselves and their households (Yeboah, 2010; Hinson & Ackah-Baido, 2011; Afrane & Adjei-Poku, 2013; Lee, Jusup, Podobnik & Iwasa, 2015).

Despite the immense benefit of accessing credit, the poor in Africa are said to be excluded from participation in economic activity due to lack of access to finance from mainstream financial institutions and this has rendered the poor incapacitated to live a quality life (Helmes, 2006). Like most, if not all African countries, Ghana has a high rate of poverty as well as a vibrant microfinance sector. Microfinance is considered very important in transforming the informal sector into a viable option for the achievement of Ghana's Poverty Reduction Strategy II and the Sustainable Development Goals (Asiama & Osei, 2007).

1.5 CREDIT RISK

A risk is defined as "the possibility of an adverse event occurring" (Gadiyar, 2009). However, Cendrowski and Mair (2009) indicate that risk means the probability that a decision will result in a different outcome rather than the expected due to unavailability of perfect information. In a financial services environment including microfinance, credit risk is the risk of default, thus, the borrower will be unable to pay as agreed (Dubrana, 2010). Credit risk arises when there is the potential that an obligor (borrower) is either unwilling to perform on an obligation (loan contract) or his ability to perform such obligation is affected by factors beyond his control and that could result in financial and economic loss to the financial institution (Colquitt, 2007; YI, 2008).

Bodla & Verma, (2009:47) explains the term to mean the ‘possibility of losses associated with reduction in the credit quality of borrowers or counterparties in a loan contract.' Basically, Credit risk is the risk to earnings or capital, which occurs because of late and non-payment of a microfinance loan. This implies that losses are experienced when both anticipated interest and principal are not collected and that eventually results into defaults.

1.5.1 THE NATURE OF MICROFINANCE CREDIT RISK

Microfinance clients are vulnerable to all kinds of factors since their life circumstances are erratic and changes very frequently (Ibtissem & Bouri, 2013). Because of this vulnerability, MFIs are always at risk of losing the loans they have granted to their clients. More so, when MFIs collect deposits from the public and lend back to clients, they are in effect putting the depositors’ money at risk, if such loans are not paid back to the microfinance institution.

Microfinance credit risk is the risk of default in the sense that the borrower will be unable to meet payment terms of the loan taken as agreed in the loan contract due to the vulnerability and shocks that are peculiar to the poor (Bodla & Verma, 2009; Dubrana, 2010).

1.6 ENTREPRENEURSHIP

The word entrepreneur comes from the French word '***entreprendre'*** meaning 'to undertake' (Kuratko, 2009:4). The entrepreneur is an individual who undertakes to organise resources, manages, and takes risks in a business venture (Dzansi, 2004). Entrepreneurship therefore is an innovative process where an individual (innovator) identifies an opportunity, takes an advantage of that opportunity, organise resources, converts those opportunities into marketable ideas, adds value to them through time, effort, and money and expects a reward from these efforts (Kuratko, 2009 ;Osiri, 2013;Hoffmann, 2006*).*

1.6.1 ENTREPRENEURSHIP PROMOTION AND POVERTY REDUCTION

Today, micro enterprises are increasingly recognised as the major contributor to income and employment generation and by implication a contribution to poverty reduction especially in the developing world (Dalglish, 2008). It has also been established by many scholars that, there is a strong relationship between micro, small & medium enterprises (SMMEs), entrepreneurship, economic wellbeing of individuals and poverty reduction. (Ozgen & Minsky, 2007; Teerakul et. al, 2012; Schramm, 2013)**.**

The SMMEs depends on microfinance institutions to have access to credit to invest in their businesses. Therefore, to make poverty reduction goal to be realised, microfinance services need to be made affordable, accessible as well as free from unnecessary stringent credit risk controls that eventually denies the poor of this service.

1.7 LINKING MICROFINANCE, CREDIT RISK MANAGEMENT, ENTREPRENEURSHIP, AND POVERTY REDUCTION

From the above discussions, it has been argued that the main mission of microfinance is poverty reduction and nothing else. However, in delivering a microfinance service, the needs, the risks, and the peculiarly vulnerable nature of the poor should be factored into the planning, execution, and evaluation of all microfinance programmes.

There have been some previous studies on the need to understand the risk and the vulnerable nature of microfinance clients. The USAID in 2000 had conducted a comprehensive cross-country research across four countries namely Bolivia, Bangladesh, Uganda, and the Philippines to determine the level and type of risk facing microfinance borrowers in the developing countries.

Ibtissem and Bouri (2013), had also conducted another study focusing solely on a framework that can be used in dealing with the risk associated with lending to the poor. It, therefore, stands to say that; risk management is an integral part of microfinance and can therefore not be delinked from it. Therefore, any poverty driven MFI needs to comprehensively understand the risks and shocks that face the poor to deal with it.

The modern view of microfinance is that, adopting an entrepreneurship approach in its delivery enhances the prospects of both the borrowers as well as the microfinance institution itself. Until microloans are directed towards investment into a venture, poverty reduction will remain elusive (Carsamer, 2012; Annim & Alnaa, 2013).

Apart from the provision of microfinance loans to entrepreneurs to implement innovative ideas, MFIs are also supposed to provide savings facilities, business and life insurance, payment and transfer systems and many social intermediation programmes such as training, management development and financial literacy to micro enterprises (Ejaz & Ramzan, 2012).

1.8 THEORETICAL CONSIDERATIONS

In this section, the systems theory and the theory of constraints, the main theories underpinning this research are presented.

1.8.1 SYSTEMS THEORY

The systems theory as a field of inquiry is concerned with the holistic and integrative exploration of phenomena and events (Laszlo & Krippner, 1998).

In 1978, Miller propounded the living systems theory (LST) that tries to understand the 'living parts' of all systems. Miller's (1978) conceptual framework viewed existence of living systems as an integrated, evolving hierarchy of matter, energy, and information.

According to Ackoff (1981), a system consists of a set of interrelated elements with each element influencing the functioning of the whole - meaning each element is affected by at least one other element in the system. Therefore, failure of one component leads to the collapse of the whole system – *entropy*.

This theory is relevant to this research in several ways including the fact that the delivery of a microfinance service consists of a system of interconnected activities with credit risk management being one of the integral aspects of it. In accordance with this hallmark theory, if microfinance is to meet its mandate of extricating the poor from poverty or vulnerability to it, the ***constraints*** imposed by microfinance risk management practices (as a component of microcredit system) on extending microfinance to the poor need to be identified, modified or removed. This means that from a systems perspective, the ***theory of constraints*** (TOC) is also relevant to this study.

1.8.1 THE THEORY OF CONSTRAINTS

Basically, TOC applies the cause-and-effect thinking processes to understanding and improving a system. In effect, there is the need to identify and remove credit risk management practices that end up hindering the ability of microfinance in achieving its objective of poverty alleviation.

As part of the same microfinance system, there should be an acceptance of collateral substitutes, women-oriented programmes, taking financial service to the poor, client participation, incentivize repayment and loyalty.

A well-designed microfinance system should also involve small transactions, loans mainly for entrepreneurial activity (Lee, Jusup, Podobnik, & Iwasa, 2015) which requires training, group-based lending, simple application process ,provision of services in underserved communities,the charging of market level interest rates and in some cases the provision of a micro-insurance against shocks that can occur in the beneficiaries' households and micro-enterprises (World Bank, 2007).The microfinance process usually ends with an impact assessment that is aimed at measuring the effect of the microfinance programme on the beneficiaries (Afrane, 2002).

1.9 THE CONCEPTUAL FRAMEWORK

Helms, (2006) has long pointed out that MFIs that wish to have a direct impact on poverty must concentrate on making those services useful to the poor. Today, the same notion still stands. For example, in Ghana, microfinance targets the poor (Asiama & Osei, 2007). But like any credit facility, the risk of default in paying back microfinance is a major concern for MFIs in making financial services to those who need it the most (the vulnerable non-poor; moderate poor; and extremely poor).

The above implies that, MFIs have no choice but to carefully assess and manage microcredit risk. But managing credit risk is not easy. Various reasons can account for this. For example, microfinance is operated under some specific regulatory regimes set out and implemented by the Central Bank of Ghana and these rules determine what these institutions do and what they are not allowed to do. Different legislative instruments and authorities regulate Microfinance in in Ghana. The Ghanaian microfinance is currently regulated under the following Acts of parliament.

1. The Banking Act, 2004 (Act, 738).
2. The Non-Bank Financial Institutions Act, 2008 (Act 774).
3. Financial institutions Non-Banking Law, 1993.

Whatever the case, microfinance institutions cannot avoid or ignore risk, as this is a standard business practice. However, as stated earlier, microcredit risk management can constrain the ability of microcredit to achieve its desired goal. It is, therefore, essential that MFIs in Ghana adopt credit risk management practices that do not unduly constrain usefulness of it.

Conceptually, this study proposes that: proactive credit risk identification, assessment and management practices that take into consideration both basic risk management principles, national regulations tampered with the peculiar circumstances of the Ghanaian poor are essential for a long-term sustainability of microfinance as well as lifting the poor in Ghana from poverty or vulnerability to it.

Thus, be it a Savings and Loans, a financial Non- Governmental Organisation, a Rural Bank, or a Commercial Bank providing microfinance, it is paramount that credit risk management practices consider the peculiar circumstances of the Ghanaian poor.

1.10 THE RESEARCH PROBLEM

1.10.1 PROBLEM BACKGROUND

Research on suitable microfinance risk management techniques that are supposed to be used to manage the types of risks and shocks facing the poor to make microfinance delivery more effective is messy or at least inconclusive. This study proposes to identify microfinance credit risk management practices that enhance and those that hinder the ability of microfinance to extricate the poor in the Greater-Accra Region of Ghana from poverty and vulnerability to it.

As pointed out earlier, the poor in the developing world and for that matter Ghana, lack access to credit from mainstream financial institutions to invest in their economic activities that will extricate them from poverty (Helms, 2006).

Extending credit to the poor demands the use of suitable risk management techniques that do not try to avoid the poor but rather embrace them. Microfinance institutions in Ghana may use or may be using generic credit risk management practices that may not be so 'emotionally intelligent' to the circumstances of the poor in Africa hoping that what has worked in the developed country context may work in Ghana too.The inability of the MFI to design suitable risk management techniques that take into account the needs, risks and shocks facing the poor will be a recipe for failure in dealing with poverty effectively(Ball & Watt, 2013).

Good practice in identifying and managing microcredit risk associated with the entrepreneurial poor is therefore required. The crux of microfinance risk management, according to Van Vuuren (2011) is trying to avoid negative credit exposures. However, avoiding exposure may also lead to the exclusion of those most in need of microcredit. Therefore, a judicious credit risk management is essential to the long-term sustainability of a microfinance institution as well as making an impact on poverty reduction (Lee, Jusup, Podobnik, & Iwasa, 2015). A search for a judicious microfinance credit risk management strategy is, therefore, imperative for African countries and Ghana specifically.

1.10.2 Problem Definition

Credit risk management is essential in making an impact on the poor. Microfinance institutions in Ghana may use or may be using generic credit risk management practices that are not so ‘emotionally intelligent’ to the circumstances of the poor adopted mainly from the commercial bank models (Lee, Jusup, Podobnik, & Iwasa, 2015).

However, the poor need suitable credit risk management techniques that consider their peculiar vulnerable nature and erratic circumstances (Goldberg & Palladini, 2010; Ibtissem & Bouri, 2013). Looking at the various criticisms of microfinance including Bateman and Chang (2009) and Copestake (2007) suggests the need for a sustainable credit management model that is able to make a lasting impact on poverty in Ghana.

This study, proposes to investigate the extent to which credit risk management practices of MFIs hinder microfinance as a tool for poverty alleviation in the Greater-Accra Region of Ghana. The purpose is to identify micro credit risk management practices that enhance and those that hinder the ability of microfinance to extricate the poor in Ghana from poverty and vulnerability to it.

1.11 RESEARCH QUESTION

1.11.1 MAIN RESEARCH QUESTION

How do the credit risk management practices of selected regulated microfinance institutions impact the ability of microfinance to contribute to poverty alleviation through entrepreneurship in the Greater - Accra Region of Ghana?

1.11.2 SUBSIDIARY RESEARCH QUESTION

1. To what extent is microcredit reaching the poor in the Greater-Accra Region of Ghana?
2. To what extent are the poor in the Greater-Accra Region of Ghana who access microcredit utilising such financial resources for ‘entrepreneurial’ activity? In other words, are the poor in the Greater-Accra Region of Ghana who accesses microcredit really utilising such financial resources for ‘entrepreneurial' activity?
3. How effective is microcredit (or has microcredit been) in promoting ‘entrepreneurial’ activity among the poor in the Greater-Accra Region of Ghana?
4. What is the microcredit default rates among the poor in the Greater-Accra Region of Ghana?
5. What are the main credit risks associated with the poor in the Greater-Accra Region of Ghana?
6. What are the main credit risk management techniques used by MFIs in the Greater-Accra Region of Ghana?
7. Which credit risk management practices of microfinance institutions inhibit microfinance to the poor in the Greater-Accra Region of Ghana?

1.12 RESEARCH OBJECTIVES

1.12.1 MAIN RESEARCH OBJECTIVE

Using selected regulated microfinance institutions in the Greater-Accra Region of Ghana, this study investigates the impact of credit risk management practices of MFIs on microfinance ability to contribute to poverty alleviation through entrepreneurship.

1.12.2 SUBSIDIARY RESEARCH OBJECTIVES

1. To determine the extent to which microcredit is reaching intended beneficiaries in the Greater-Accra Region of Ghana.
2. To determine the microcredit default rates in the Greater-Accra Region of Ghana.
3. To identify the main credit risks for MFIs in the Greater-Accra Region of Ghana.
4. To establish the main credit risk management techniques used by MFIs the Greater-Accra Region of Ghana.
5. To determine the extent to which credit risk management practices of microfinance institutions inhibit microfinance as a tool for poverty reduction the Greater-Accra Region of Ghana.
6. To identify best practice lessons that can be learnt from the credit risk management practices of microfinance institutions in the Greater-Accra Region of Ghana.
7. To develop an effective credit risk management framework for microfinance institutions that does not significantly hinder the ability of microfinance to reduce poverty in the Greater-Accra Region of Ghana.

1.13 THE RESEARCH SETTING

This study aims at examining the impact of microfinance credit risk management practices on poverty alleviation through entrepreneurship by drawing insights from the Greater- Accra region of Ghana. Therefore, the context of the study area is the Greater- Accra region of Ghana.

Specifically, the study was conducted in the Greater Accra Region of Ghana with Accra as its capital. Most MFIs have their head offices located in the Greater- Accra region of Ghana. Also, policies and decisions regarding credit risk management and poverty reduction are made at the head offices of the MFIs. Therefore, the selection of the Greater- Accra region of Ghana for this study is well justified.

1.14 MOTIVATION FOR STUDY

This study is critical to multi-stakeholders in the microfinance industry like the academia, MFIs, Central Banks, Governments at all levels, development planners as well as international organisations who have a strong interest in the delivery of microfinance services to the poor and its impact on poverty reduction especially in Africa and specifically Ghana.

This study proposes to investigate the extent to which credit risk management practices of MFIs promote or hinder microfinance as a tool for poverty alleviation through the deployment of entrepreneurial tools in the African context. However, a strong emphasis is laid on the fact that, microcredit activity without adopting an entrepreneurial approach in its delivery will eventually not benefit the users and thereby poverty reduction will be elusive. This study is justified on the following grounds.

Firstly, to contribute to the debate on the inability of microfinance to reduce poverty effectively. Over the past three decades, there has been a vast literature which suggests that microfinance is effective in reducing poverty (Bakhoum et al. 1989, Schneider, 1997; Aguilar, 2006; Helms, 2006). However, there has been a current debate questioning the efficacy of microfinance in poverty reduction. These researchers seek to indicate that microfinance has rather deepen poverty rather than alleviating it looking at the current commercialization of the section and the cruel methods of loan collection among others (Bateman & Chang, 2009; Bateman, 2010).

Regardless of one’s position on the matter, it is clear from empirical results and criticisms such as those mentioned above, that microfinance has not delivered on the promise of alleviating poverty among the poor to a level of comfort talk less of permanent escape from poverty. For example, it has been estimated that there are still billions of people in the world currently who do not have access to any form of financial services (Helms, 2006).

The above arguments clearly show that there is a challenge at the microfinance front in addressing poverty issues and there is the need for a new approach, a new investigation, and a new understanding to explain how microfinance can be effectively used to reduce poverty. My argument in this study is that many MFIs are not clearly and totally managing the risk that is associated with the poor and the very poor well. They may also not have the necessary risk management tools and framework that suits the peculiar needs of the poor in Ghana. This has resulted in the access gap as described above. Hence the need for this study; to propose an effective microfinance credit risk management framework that can be used to manage the risk associated with the poor.

Secondly, this study has contributed to the discussion of the *Welfarist* school of thought (Woller et al, 1999; Morduch, 2000; Copestake, 2007). Many MFIs globally are adopting a commercial approach to the delivery of their services. The *institutionist* paradigm (Woller et al, 1999; Morduch, 2000) that argues that MFIs need to cover their operating and financing cost with revenues is likely to drift MFIs away from their mission of poverty reduction.

MFIs might claim that they must be sustainable to be able to extend their services to the poor. As much as this is true, MFIs are becoming profit-seeking entities charging exorbitant interest rates, requesting for landed properties as collaterals, adopting cruel methods of collection, requesting upfront deposits from clients before loans are disbursed, and up-scaling their services to the non-poor who they think can pay their loans successfully.

My argument here again is that, MFIs in their interest to be sustainable and self-sufficient gravitate towards the non- poor where loan sizes are bigger to enjoy economies of scale and thereby neglecting the poor and the very poor. Even though commercialization of microfinance has its own promises, it is likely to lead to mission drift (Copestake, 2007).

The Welfarist school of thought (Brau & Woller, 2004) therefore emphasises that poverty alleviation and depth of outreach (level of poverty) should be the focus of MFIs rather than the breadth of it (scale). They agree that institutional sustainability is very important but it is unethical to sacrifice the depth of outreach to achieve such financial viability that the institutionists hold (Copestake, 2007).Therefore, if poverty reduction is the mission and the 'calling' of microfinance, then the poor rather not be driven away but their risks and vulnerability need to be identified, assessed, measured, and managed effectively with risk management tools and frameworks that are suited but not generic to the needs of the poor.

Thirdly, this study has also contributed to the discussion on the role of entrepreneurship in the delivery of microfinance. The role of entrepreneurship and entrepreneurial training has not been fully integrated into the delivery of microfinance services to the poor. As pointed out by Carsamer, (2012) and Annim and Alnaa (2013), poverty reduction is only possible through microfinance if such micro credit loans are invested into a micro-entreprise thereby leading to an improved income.

There are few studies that have focused on drawing the link between entrepreneurship and microfinance such as Ejaz and Ramzan (2012), however, those studies have not clearly defined the form and nature of how exactly entrepreneurial training for microcredit clients be done.

The argument, however, is that entrepreneurial training as an integrated part of an MFI services will lead to an improved performance of SMMEs and thereby contribute to portfolio quality of MFIs themselves since recovery rates will be enhanced. Many MFIs focused on the provision of financial capital and increasing their loan portfolios but with no or little attention to human capital development in small businesses and this has led to the collapse of many SMMEs as well as the MFIs themselves (Ladzani & Van Vuuren, 2002). Therefore, the content of entrepreneurial training for MFI clients is as important as the credit that is extended to them.

Another justification for this study is to draw a clear linkage between microfinance credit risk management, poverty reduction and entrepreneurship. As pointed out earlier, the mainstream banks are reluctant to finance entrepreneurs especially the young ones. With this situation ,microfinance institutions remain the major source of finance for entrepreneurs, especially in developing countries. SMMEs in Africa have several challenges such as highly personalised structures; weak record of meeting commitments; inadequate bookkeeping; poor financial management; and inadequate knowledge of the market in which they operate (IMF, 2015).

The understanding of these challenges and its associated risks by MFIs is very paramount to a successful delivery of credit products as well as the sustenance of the MFI itself. These risks, therefore, need to be identified, assessed measured and managed effectively if such an MFI is dedicated to making a lasting impact on these SMMEs. The type of risk management technique adopted by an MFI determines the level of impact that will be experienced by such SMMEs.

The linkage clearly is that, without identifying the risks associated with entrepreneurs managing SMMEs and providing the necessary risk management technique, these businesses are likely to suffer in terms of profitability and will be unable to pay back their micro credits and this will have a direct impact on loan portfolios of MFIs which will eventually lead to bottom- line issues and eventual collapse. The result of all these is that poverty reduction will remain an unachievable goal by MFIs.

1.15 RESEARCH METHODOLOGY

Firstly, the study can be regarded as exploratory because it investigated the impact of credit risk management practices of MFIs on poverty reduction through entrepreneurship in the Greater-Accra Region of Ghana. This is a phenomenon that has not been explored well in the microfinance landscape in Ghana hence the need for this study. Secondly, the study was conducted from the mixed method approach by employing the descriptive method. Thus, both the positivism and interpretivism approach has been adopted to conduct this study. Details of the research methodology are presented in Chapter 5.

1.16 ETHICAL CONSIDERATIONS

Ethical considerations are essential in every research endeavour (de Vaus, 2001). This is because, for a research output to be reliable, the research process and some level of moral standard should be adhered to (Cooper & Schindler, 2011:32). More so, ethical issues reflect the normative behaviour that guides the moral choices of researchers in their work (Bryman, 2008).

Kumar (2011:241), indicates that ethical consideration should involve all the stakeholders in the research. These stakeholders include the research participants, the researcher, and the funding institution. Ethical research considerations such as seeking consent, seeking, and collecting sensitive information, maintaining confidentiality, avoiding bias, avoiding incorrect reporting, the use of appropriate research methodology and the appropriate use of the research information will be practised throughout the course of this research and thereafter.

In accordance with this perspective, the execution of the research was done at the highest standard possible to achieve quality and unbiased outcomes taking into consideration the needs of all the stakeholders in this study.

1.17 DEFINITION OF KEY TERMS

There is the need to provide a concise definition of the various terms used in every research. This is because it prevents ambiguity and provides context-specific meanings as they are used in a study (Cooper & Schindler, 2011:57). Precise definitions of key terms applied in the research are provided in the next section.

Micro Enterprise

Any Enterprise that employs up to 5 people or has fixed assets excluding land and building mot exceeding $10,000(NBSSI, 2013).

Small Enterprise

Any enterprise employing between 6 and 29 or having fixed assets excluding land and building not exceeding &100,000 (NBSSI, 2013).

Medium Enterprises

Any enterprise employing between 29 and 50 or having fixed assets excluding land and building not exceeding &200,000 (NBSSI, 2013).

Poverty Reduction

Poverty reduction is defined as designing,implementing and targeting appropriate methods to ensure that scarce resources are allocated to activities that are likely to yield the greatest impact on the poor and decrease their levels of deprivation and vulnerability (Page & Shimeless, 2015; Saleem & John, 2016).

Microfinance

Microfinance is a generic term that is used to refer to both informal and formal arrangements that are geared towards offering financial services including a non-collateralized loan to the poor by using a market-led approach and innovative lending technologies on a sustainable basis (Hartarska & Nadolnyak, 2007; Zulfiqar, 2014).

Microcredit

microcredit refers to the issuance of only microloans to the poor to invest in their businesses without other additional services (Morduch, 2000; Afrane & Adjei-Poku, 2013).

1.18 RESEARCH LIMITATIONS

All research studies have limitations. Firstly, there were difficulties in accessing respondents. Many MSME owners are not organised and accessing them for a study of this nature was difficult. Consequently, not all respondents completed and returned their questionnaires. Nonetheless, as will be seen in the results chapter, the response rate appears reasonable given the time constraints of this research.

Secondly, the limited geographical scope (Greater-Accra Region of Ghana) of the study obviously limits the generalisability of the findings to the whole of Ghana. The study was not able to cover the whole of Ghana due to financial, time and other resource constraints. Despite these difficulties and with careful planning, the quality of data collected and its analysis was high which makes the outcomes of the study credible. It is therefore recommended that future studies can focus on other regions of Ghana.

1.19 ORGANIZATION OF THE THESIS

This research report is structured into seven chapters as follows.

Chapter 1 presents the general introduction and background to the study. It includes the problem statement, research questions, and objectives and concludes with the definition of key terms/concepts.

Chapter 2 presents the concept of poverty and its multidimensional nature.

Chapter 3 discusses the concept of entrepreneurship, the entrepreneurial process, and the promotion of entrepreneurship through microfinance.

Chapter 4 reviewed the literature on microfinance credit risk management and the poor's access to microcredit.

Chapter 5 presents the methodology applied in the study.

Chapter 6 is dedicated to the presentation and discussion of the results.

Chapter 7 articulates the conclusions and recommendations for practice, policy, and directions for future research.

1.20 CHAPTER SUMMARY

This chapter has provided an overview of the entire research process including the problem and its background, research questions and objectives, the methodology applied, anticipated ethical problems and chapter layout. The next chapter provides begins the literature review related to the study with focus on poverty.

CHAPTER 2: PERSPECTIVE ON POVERTY

2.1 OUTLINE OF CHAPTER

Figure 2.1 below illustrates the sequence of this chapter.

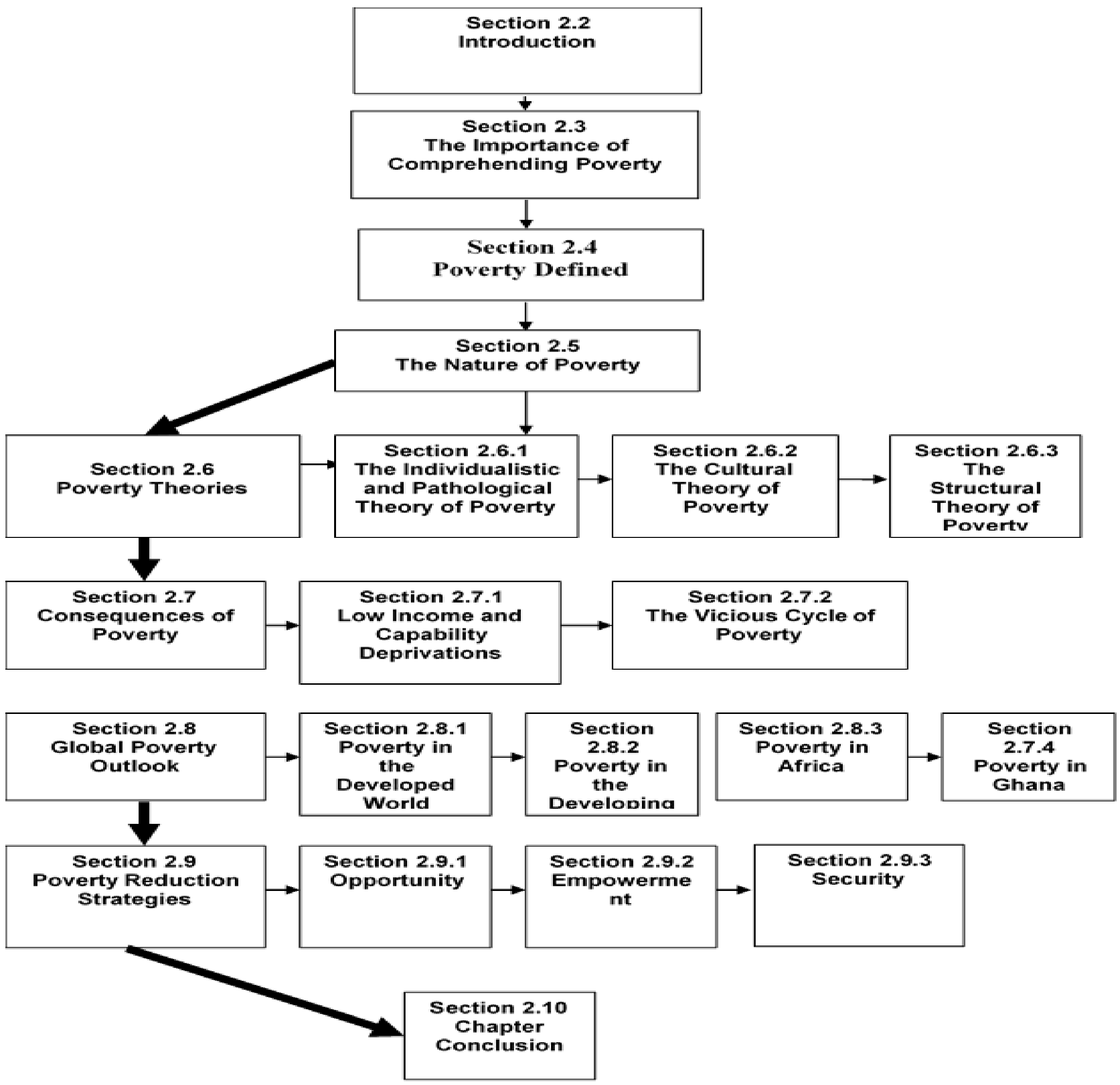


Figure 2.1: Outline of Chapter 2

2.2 INTRODUCTION

The conceptual framework presented in the previous chapter (Chapter 1) identified poverty; entrepreneurship; microfinance; and microfinance credit risk management as the key variables (issues) in the study. The literature review, therefore, covers relevant literature on these variables or issues. This chapter focuses on the issue of poverty and more specifically its reduction.

Firstly, the growing importance of finding a sustainable solution to the poverty problem is discussed followed by an examination of its extant definitions with the aim of arriving at a working definition. Thereafter, the causes, general manifestation (nature/ indicators), as well as the measurement of poverty are discussed. It is a truism that Ghana, the rest of Africa and in fact, the whole world is faced with the problem of poverty reduction. Therefore, the literature review also pays attention to poverty outlook of Ghana, Africa, and the world at large. Next, theories that underpin poverty and the various reasons that are assigned to poverty are examined. Poverty like any social phenomenon has consequences for individuals and nations hence this issue is examined in detail with specific emphasis on poverty-related issues in Ghana. The Sustainable Development Goals (SDGs), which is the internationally agreed standard for poverty reduction by 2030 is comprehensively discussed since no poverty-related study these days can be considered complete without discussing the SDGs. To conclude the literature review in this chapter, key issues of poverty globally and the specific issues of the poverty trap in Africa and Ghana are dealt with. This section of the literature review attempts to find answers to pertinent questions such as: how best can global poverty be reduced; and how can the poor in Africa and for that matter Ghana be helped to extricate themselves out of the poverty trap in a sustainable manner? These questions are intended to determine the efficacy of poverty reduction mechanisms. Whilst some of the poverty reduction mechanisms are exhaustively examined in this chapter, a more in-depth analysis of entrepreneurship as a poverty reduction mechanism is reserved for Chapter 3.

The following sections now consider the above-listed topics starting with the growing attention to poverty reduction.

2.3 THE IMPORTANCE OF COMPREHENDING POVERTY

The importance of fully comprehending poverty and therefore finding a sustainable solution is aptly captured by Phulpoto (2007:59) as follows.

> *"Poverty cannot be illustrated, it can be experienced. One knows more about it when he is starving and cannot manage to pay for food. He and his children want new clothes on festivals but cannot buy these, due to low income. He is sick, but he is not able to buy medicine. He wants to send his children to school, but cannot bear the expenses. He wants to be appreciated in society but is treated poorly by the institutions of the state and society. He is voiceless and incapable"* (Phulpoto, 2007:59).

Increasing global poverty is a major concern for all nations, donor communities and the United Nations specifically. Poverty reduction on a sustainable basis has therefore become one of the most important goals of all nations especially developing countries where abject poverty, malnutrition, poor housing, poor sanitation, diseases, illiteracy child and maternal mortality has become visible and almost insurmountable (Haruna & Anawart, 2012:22 ;Bessell, 2015:224). The need to understand the concept is part of the solution to it (Gopal & Malek, 2015).

Despite all the global talk about poverty, it is surprising to note that only little efforts are being devoted to identifying its root causes and this has led to constant failures and poor design of strategies for addressing the menace (Akindola, 2010:105). This failure to address the poverty menace has resulted in the growth of the number of people who fall below the poverty line on a daily basis. The reason for the constant growth of poverty according to Akindola (2010: 106) is the wrong use of poverty indicators where policy measures have narrowed the single critical cause of poverty to the lack of income hence the focus on economic growth as being the major means to reduce the menace.

It is, however, important to emphasise that poverty is a very complex and multidimensional issue that defies a singular approach in addressing it. To tackle poverty successfully demands a holistic approach where both economic indicators such as income, consumption levels, Gross Domestic Product per capita levels and non-economic indicators of poverty such as life expectancy, education, gender equality, and health should be clearly examined and addressed (Annim, Mariwah & Sebu, 2012:3; Aryeetey et al., 2013:1).

Poverty has its dimensions and symptoms in inequality, lack of empowerment, lack of human and natural assets, physical and financial assets, voicelessness, vulnerability of all kinds and general lack of social capital, which is essential in all societies (Kakwan & Silber, 2008:987; Esposito & Chiappero-Martinetti, 2010:183; Bessell, 2015:224). It is, however, needless to identify only the dimensions and symptoms of poverty without providing a real and tested framework that will seek to address all the dimensions and symptoms. This is because poverty is argued to be a very complex issue that must be tackled holistically rather than mere political rhetoric conjecture.

The current global discussions on poverty and its reduction have been on gender-based poverty or what has been referred to in the literature as 'feminization of poverty' (Nasreen, Nadeemullah, & Faisal, 2013; Belzunegui, Matu, & Pastor, 2013; Bessell, 2015:224). It is estimated that about 70% of the world's poor are women; hence an approach that addresses poverty among women is recommended in all poverty reduction strategies.

Focussing on women in addressing poverty issues is important because women experience a higher incidence of poverty than men, women are also prone to long-term poverty than men because they face more barriers to lifting themselves out of poverty (Chant, 2006:4).

This feminization of poverty has also been echoed by Debrah (2013:46) who pointed out that women are more likely to be poor and experience a higher incidence of poverty than men because there are some entrenched barriers especially in Africa where childcare, domestic tasks, and taking care of the sick are all direct responsibilities of women and this prevents them from engaging in paid work and the development of the necessary skills which will assist them to engage meaningfully in personal growth process and society at large. It, therefore, renders women being ranked low in terms of economic social and legal rights.

Child Poverty has also been observed to be the bane of many countries, especially in the developing world. Poverty has a devastating effect on children because children are vulnerable and helpless when it comes to incidence of poverty. The effects of poverty on children show in high child mortality rates, malnutrition, greater risk of injuries, physical abuse, total neglect, and lack of formal education (Short, 2016; Wimer, Nam, Waldfogel, & Fox, 2016; Mansour & Curran, 2016).

Poverty is not tolerable to anyone. This is because it leads to the inability of the individual to function effectively in society and makes a person more vulnerable to all kinds of shocks because of limited choices in food consumption,housing and general basic needs (Adjasi & Osei, 2007:449)

2.4 DEFINING POVERTY

There is currently no consensus among researchers and practitioners on the definition of the concept of poverty and its measurement. This lack of consensus has contributed largely to the difficulty is faced assessing people that are thought to be poor and the various strategies that are designed to alleviate their poverty (Domfeh & Nyigmah, 2009:491; Akindola, 2010:106; Haruna & Anawart, 2012:23;

Suich, 2012:2*;* Khumalo, 2013:5644; Aryeetey, et al., 2013:1). Poverty is very difficult to define because of its relativity and how it means different things to different people at different times (Yanagisawa, 2011).

The World Bank (2001:3) defines the concept as follows:

> *"Poverty is hunger. Poverty is the lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not having access to school and not knowing how to read. Poverty is not having a job, is fear for the future, living one day at a time. Poverty is losing a child to illness brought about by unclean water. Poverty is powerlessness, lack of representation and freedom''.*

Essentially, poverty has also been defined to mean the general lack of the necessities that is due to an individual (Wright & Noble, 2013). Poverty is the situation that places human beings in a state of hunger, sickness, and powerlessness. Poverty is living one day at a time, with no access to basic daily needs of food, clean water, education, and health care (Domfeh & Nyigmah, 2009;Tracy & Robert, 2013).

The definitions of poverty vary according to their narrowness or depth of its definition (Misturelli & Heffernan, 2008). Thus, whether they are confined to the material core; the nature of that material core; and whether they embrace also relational factors associated with poverty such as lack of participation, lack of voice and many others. Nolan and Whelan, (2009) argue for a definition towards the narrower end with the reason that defining poverty in a broad sense runs the danger of losing sight of the distinctive 'core notion of poverty. Defining poverty in a very broad sense means including issues like the inability of people to participate in society due to their general lack of resources which keeps them alienated from their communities (Jerneck, 2015).

Therefore, on the broader perspective, defining poverty must include issues such as lack of voice, respect and self-esteem, isolation, and humiliation. In this respect, it has been stated that poverty is a deprivation of all kinds in the quality of well-being of an individual (Frediani, 2007:137; Bercu, 2011:122; Imedio-Olmedo, Parrado-Gallardo, & Ba´rcena-Martı´n, 2012).

This wellbeing can be measured by an individual’s income level, health status, nutrition, educational level, all kinds of assets including social capital, housing, and certain rights in a society such as freedom of speech (Esposito & Chiappero-Martinetti, 2010). It is this lack of opportunities, powerlessness, and vulnerability which microfinance seeks to restore to the entrepreneurially poor by extending credit to them to engage an income-generating activity.

It is therefore of interest to note that different forms and complexities characterise poverty. For instance, Dzansi, (2004:27) observes that poverty can take many forms such as food insecurity, crowded homes, usage of unsafe and inefficient forms of energy, lack of adequately paid and secured jobs, lack of access to basic education, high adult illiteracy, and high infant mortality rate. These vulnerabilities, justify the need for a sustained micro-financing for the poor.

Poverty is a multi-dimensional concept (Grosse, Harttgen, & Stephan, 2008; Hick, 2014:295). It is, therefore, important to include both monetary and non-monetary aspects when defining the poverty phenomenon. For instance, there is a lot of literature on the fact that poverty is a multidimensional phenomenon (Akindola, 2010:107; Gobind, Allah, Mohammad, & Riaz, 2008:184; Nolan & Whelan, 2009:1; Andy, 2011; Coromaldi & Zoli, 2007:2; Jenkins & Micklewright, 2007:7). This means that income and levels of consumption alone cannot be used as the sole criteria to define poverty.

There is the need to consider non-monetary aspects of individuals when assessing their poverty levels. This is the reason the United Nations Development

Programme (UNDP) in the 1990s introduced the concepts of “human development” and “human poverty” into the debate. Whereas human development refers to the process that enlarges peoples’ choices, including freedom, dignity, self-respect and social status, human poverty refers to deprivation of essential capabilities such as a long and healthy life, economic resources, knowledge, and community development (Domfeh & Nyigmah, 2009:492).

From these definitions, one thing that remains clear is the fact that poverty is the lack of empowerment, which deprives humans of accessing essential needs for survival. From this point of view, one can argue that one key solution of providing this empowerment is through micro-financing through the venture creation process (Copestake, 2007;Katsushi, Arun, & Annim, 2010; Katsushi, Raghav, Thapa, & Annim, 2012).

The various dimensions of poverty such as height, width, depth, and time, according to Dewilde, (2008:236) can be assessed and its impact measured. First, poverty can manifest itself on several life domains (width) and in different grades of severity (height). The depth dimension refers to the accumulation of problematic situations on several life domains. However, the time dimension is whether poverty can be a short-lived experience of an individual or instead of a long-term chronic experience.

Sustainable Development Solutions Network, (2012) argued that income and consumption levels cannot be the only criteria for defining poverty but the definition of poverty should include lack of access to the various capital that the poor need to engage in some income generating activity. Microfinance is able to provide this access which engages the entrepreneurial poor in a venture creation process that eventually reduces his household poverty (Hermes & Lensink, 2011; Kasali, Ahmad, & Lim, 2015).

Human deprivations are not static.They can be graded to reflect the state of deprivation of an individual at a particular period in time. According to Gordon (2005:5), deprivation ranges from no deprivation through mild, moderate, and severe deprivation to extreme deprivation. This continuum is elaborated in the figure below.

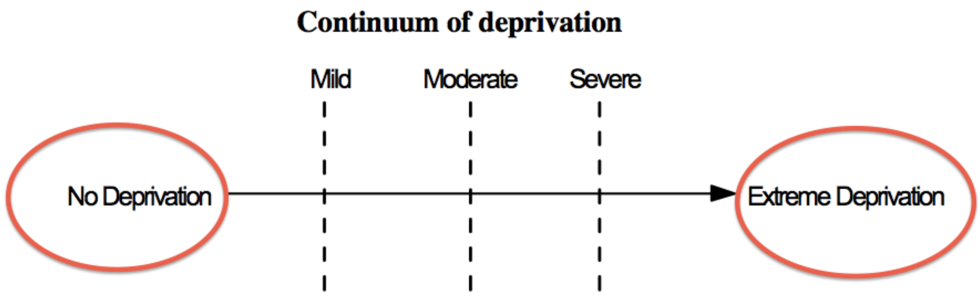


Figure: 2.2 The continuum of deprivation
Source: (Gordon, 2005:5)

The various definitions discussed above goes to reiterate the fact that there is no consensus as to what the definition of the concept of poverty really is. However, since poverty is a global phenomenon and the various variables that exist in its definition are numerous, there is a need to adopt a global definition that embraces all nations and dimensions of poverty.

The current global definition of poverty even though heavily criticised, is based on earning capacity of at least $1.90/day to sustain livelihood (Klasen, 2008;Jolliffe & Prydz, 2016). This amount is at least needed by an individual to maintain a livelihood and afford necessities such as food and water. Thus, any individual who spends less than $1.90 a day is regarded as poor and therefore falls below the poverty line.

Domfeh & Nyigmah, (2009:491) therefore indicates that even though defining the concept of poverty is controversial, in all societies when people come face to face with the reality of poverty, it is at least regarded if for nothing at all, as dehumanising and debilitating.

As argued above, the definition of poverty whether narrowly or broadly is to help differentiate poverty from other non-poverty conditions. By so doing the real poverty diagnosis can be made and a solution can be offered to affected people. However, in order not to lose sight of the condition's wider meanings and impact and its various effects on people, it is very important that definitions of poverty are not divorced from its wider scope.

From the various arguments raised so far, it is imperative to provide a far-reaching understanding of poverty for critical policy, political as well as academic debate on the concept of poverty. Therefore, from these perspectives, poverty is operationally defined as ***a phenomenon that deprives humans of achieving well-being, social equality, capabilities, and quality life***.

Having defined poverty, it is of equal importance to provide an in-depth understanding of the nature of poverty. The assumption is that based on the nature or characteristics of poverty, appropriate micro-financing strategies can be employed in addressing the issues associated with poverty.

2.5 THE NATURE OF POVERTY

Understanding the nature of poverty is central to proposing suitable solutions to curb the nuance globally. It is also important because it enables MFIs design suitable products and services to address the needs of the poor (Hermes & Lensink, 2011; Kasali, Ahmad, & Lim, 2015). The nature of poverty cannot be hidden. Poverty is visible. It can be seen, experienced and observed. Poverty is associated with individual deprivation of all kinds, (Nolan & Whelan, 2009:5; Škare & Družeta, 2014:368) lack of monetary income, capability failure, vulnerability, hunger, poor housing, and the lack of social capital (Matthews & Besemer, 2015:189) These characteristics of poverty are central to identifying what poverty looks like when one comes across it.

Poverty can be divided into two folds: transitory and persistent (Khumalo, 2013:5646). Poverty is transitory when individuals slip into poverty temporarily due to unemployment, divorce,sickness or other forms of human tragedy. These group of people are able to climb up after a period. The persistently poor are individuals who find themselves in a chronic poverty where poverty becomes a vicious cycle that they continuously pass through mostly from childhood to adulthood. It is mostly difficult for these group of individuals to be able to come out of poverty themselves except an external support is received.

Suich (2012:2) has also made a distinction between absolute, relative, subjective, and objective poverty. Absolute poverty refers to the inability of the individual or household to meet the thought to minimum requirements for human survival. This is done by matching the status of the individual or the household against a well-defined benchmark such as the poverty line.

Relative poverty considers the status of individuals or households against the status of other individuals and households in the same community at a time. Relative poverty typically changes spatially and temporally, and measures of relative poverty are therefore not necessarily comparable between locations or over time. The relative approach examines poverty in the context of inequality within a society (Suich, 2012; Asadullah & Chaudhury, 2012; Maitra, 2016).

Poverty is considered objective when it is measurable or when quantitative indicators such as income are used to assess material and non-material dimensions of poverty (Na´ndori, 2011). Poverty is also considered subjective when the individual's judgment, perception and psychological elements are used to determine their own life and how they perceive life in general about their experience of life and the aspects they value in their lives. The incorporation of subjective measures into the understanding of poverty is a recognition that, the nature of poverty also depends on the individuals' perceptions about their own lives, opportunities, constraints, and available alternatives (Suich, 2012:2).

One other major characteristic of poverty according to Gobind, Allah, Mohammad, and Riaz (2008:183) is that the poor work often for very long hours in very deplorable working conditions and without employment rights. Employment should be decent and productive but not just any kind of employment that is not dignifying and has so many hazards involved.

Lack of livelihood diversification is another characteristic of poverty. Poor people are limited with their livelihood options to the extent that they become very vulnerable especially if their main livelihood option is affected. (Gobind, Allah, Mohammad & Riaz, 2008:184). Poor people, therefore, need to diversify their livelihood options and increase their economic opportunities, which will augment and stabilise their income as they accumulate various kinds of social, human, financial, natural, physical and capital. Rural livelihood policies should not only focus on agriculture but rather other livelihood options such as craftsmanship should be encouraged (Yeboah, 2010; Dzanku, 2015).

The scourge of poverty can be experienced and felt in many ways, which may not necessary be income related. Despite its multidimensional nature, policymakers, tend to focus attention only on monetary income in measuring poverty levels. It is therefore argued that just relying on income and consumption as variables for the analysis of poverty may be misleading and inadequate in addressing the global poverty menace (Yanagisawa, 2011:317).

The prescriptive analysis usually prescribed by the World Bank is too simplistic, and has created a fundamental error, not only in the way in which poverty is understood, but also in respect of the approaches adopted for poverty reduction in many developing countries (Akindola, 2010:107; Olli, 2008:226).

The use of non-monetary indicators specifically using deprivations of all kinds is currently accepted and used in all developed countries in measuring poverty and exclusion (Frediani, 2007:141). The same approach is recommended in assessing poverty levels in developing countries as well. The reasons according to (Nolan & Whelan, 2009:1 ; Olli, 2008:225) are not far fetched. They argue that the realities of poverty can best be identified by measuring specific deprivations and thereby illustrating clearly what low income actually means and can cause.

Nolan and Whelan (2009) has identified five types of deprivations. These are basic lifestyle deprivation, which comprises the individual's inability to afford basic needs such as food and clothing, and pay for utilities. Secondary lifestyle deprivation includes the inability of the individual to afford for example items such as a car, a phone, a colour television, and a microwave.

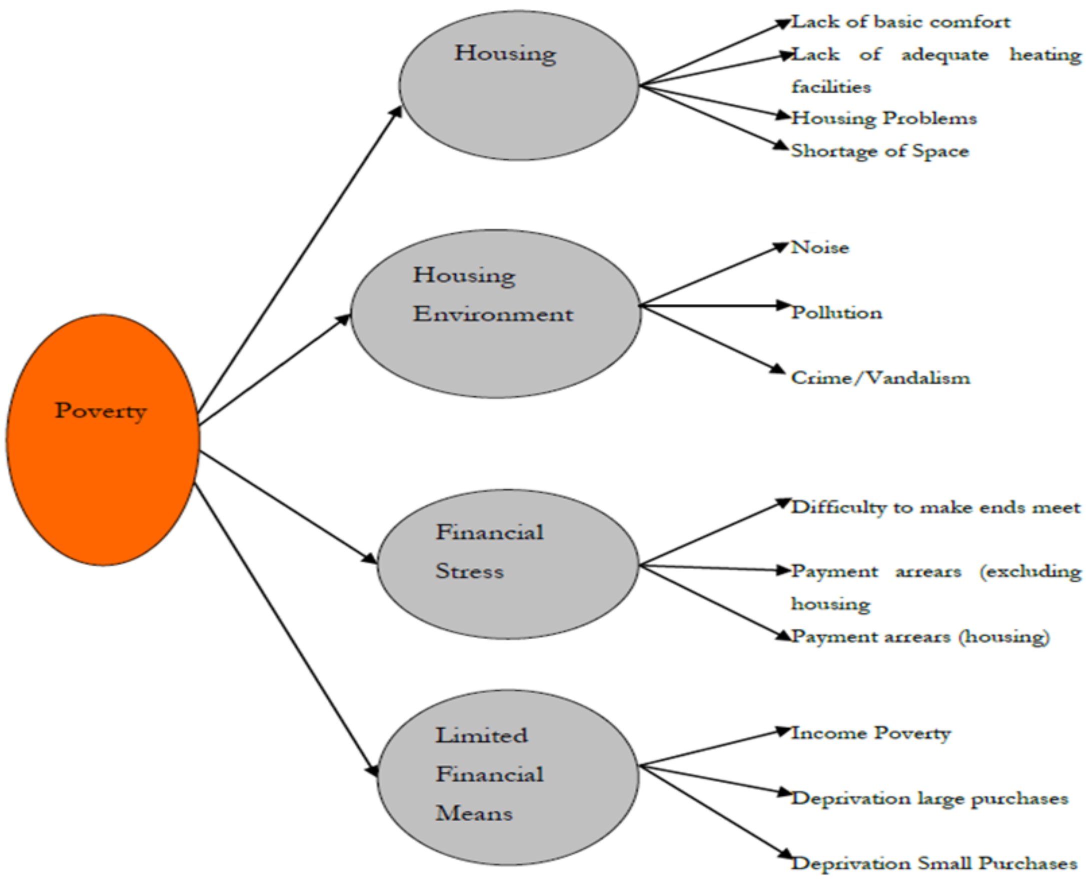


Figure 2.3: General structure of multi-dimensional poverty concept
Source: Dewilde (2004:346)

2.6 POVERTY THEORIES

Poverty has become a global phenomenon and several theories have emerged

Therefore, providing sustained micro-financing for the poor would have significant on addressing these deprivations. Deprivations can also show in housing facilities whereby an individual is not able to afford a decent accommodation, water, and toilet. Another type of deprivation comes in the form of housing deterioration whereby an individual is experiencing problems such as a leaking roof, dampness and rotting in window frames and floors.

The last type of deprivation is environmental. The existence of noise, and all kinds of pollution, inadequate space, and light forms part of an environmental deprivation. The figure below shows the multi-dimensional view of poverty over the years to shape and direct poverty research. Broadly, poverty theories are classified into two main categories namely the conservative theories which blames the incidence of poverty on the individual (Pearl, 1970; Goldstein, 1973; Beck, 1992) and liberal or progressive theories which blame the creation and maintenance of poverty on society and its structures (Paugam, 1996; Turner & Lehning, 2007; Bradshaw, 2006).

However, because of the complex and critical nature of poverty, associated with the complex nature of the individual, there is no single and coherent theory that explains poverty and how it can be addressed globally. An attempt is however made below to discuss three main theories of poverty research namely; the individualistic pathological theory; the cultural theory of poverty; and the structural theory of poverty.

2.6.1 THE INDIVIDUALISTIC PATHOLOGICAL THEORY OF POVERTY

One very common theory of poverty is the individualistic pathological theory. This theory tries to explain poverty as a result of the nature and the characteristics or attributes of the individual who is in the poverty situation (Kallio & Niemela, 2014). These attributes include the character of the individual as well as his/her intelligence in life (Majid, Rahim, & Hassan, 2012:45).

Individual attitudes large family sizes,substance abuse,lack of human capital and the inability of the individual to participate in welfare programmes are responsible for individual poverty (Jung & Smith, 2007; Baka & Larsenb, 2015). This theory explains that people are poor mainly because they are not able to compete effectively in society for resources of all kinds including financial resources. This automatically leads to poverty and its concomitant effects on the individual and his/her household. These inabilities include physical and mental disabilities that hinder the effective competition of the individual in the discourse of life.

Essentially, microfinance seeks to provide financial resources to individuals who lack these resources in order to live a meaningful life. Baka and Larsenb (2015) argued that the individualistic theory is also pathological in nature. The pathological nature sees poverty as an inherited phenomenon where certain kinds of personality traits are transferred from generation to generation. This is to say that some individuals have a lazy character and are not willing to participate effectively in society for resources hence depend on others for their survival (Domfeh & Nyigmah, 2009:493).

Another view of this theory that is related to pathology also sees poverty to be a result of acquired, inherited or developed personality traits. The core premise of this theory of poverty is that individuals are expected to seek and maximise their own well-being by making rational choices and investments, which will eventually better their lot in life. If they refuse to make rational choices but make decisions that are detrimental to their future such as to forgo a formal education, which can lead to a better paying job, then, they should be blamed for their woes if they fall into poverty (Bradshaw, 2006:5; Gopal & Malek, 2015).

One shortfall of this theory is that it blames the individual for their poverty but it fails to recognise the fact that, these factors in themselves cannot lead to poverty but it serves to establish causal links that may in effect trigger and promote factors that can push the individual into poverty. However, one other shortfall of this theory is that it fails to recognise many other people who even though have physical disabilities but are able to make progress in wealth creation and are therefore able to reduce their individual poverty as well as that of their household (Stark, 2009).

This theory has been criticised on the basis that the idea of levelling every blame on the individual for his poverty woes is just an ideology but is not helpful to shape poverty discourse. Also, the theory can be criticised on the basis that, some people who might appear to have inherited the characteristics associated with poverty do not themselves become poor in society.

From the individualistic theory, it can be argued that the individual can be empowered through the provision of a sustained micro-financing. This will seek to reduce the individual's poverty and thereby leading to improvement in the individual's attitude, human capital and welfare participation. In this regard, micro-financing can be seen as a strategy for poverty reduction.

2.6.2 CULTURAL THEORY OF POVERTY

Another theory that tries to underpin poverty research is the Cultural Theory of Poverty. This theory is sometimes connected to the individual theory of poverty. This theory argues that poverty can be transmitted from generation to generation (Wolf, 2007:50). This happens because a set of beliefs, values and skills held by society for a very long period can be transferred to future generations.

The theory suggests that the individual cannot be blamed for his poverty rather, the society should be blamed for perpetuating poverty through a dysfunctional culture or subculture (Bradshaw, 2006:5). The theory assumes that the poor has unique and different patterns of behaviour, lifestyle and priorities of values that critically distinguishes them from the wealthy in society. These unique behaviours and characteristics cause them to be perpetually trapped in the vicious cycle of poverty (Jung & Smith, 2007). This is to say that the value system of an individual or the society can have a direct impact on poverty and its reduction efforts.

This theory is very important because it gives an indication of the role of culture and societal value systems in addressing the poverty syndrome. It also informs us that in addressing poverty related issues whether, on an individual or societal basis, it is very important the values systems and motivations are examined critically to see if they are right to sustain the proposed interventions.

One major flaw of this theory is that it is assumed that it is limited to only developing countries. (Jung & Smith, 2007). This assumption is flawed since poverty is also prevalent in developed countries as well. Poverty is a global canker and therefore it cannot be merely limited to third World or developing countries alone but also some developed countries are still battling with the issue of poverty.

2.6.3 STRUCTURAL THEORY OF POVERTY

The third theory that has been at the centre of poverty analysis is the Structural Theory of Poverty (Majid, Rahim & Hassan, 2005:64; Wolf, 2007; Kallio & Niemela, 2014:114). From the structural perspective, the poor show certain patterns of behaviour and characteristics which are not necessarily inherited or internally generated as propounded by the individualistic theory. However, poor people exhibit certain values and behaviours mainly because of the influence of a restrictive and unfavourable larger economic, political, and societal structures (Wolf, 2007; Jung & Smith, 2007; Majid, Rahim, & Hassan, 2005).

The structural theory, therefore, suggests that due to some predefined structures in countries, the poor do not have the opportunity to realise their dreams and acquire the necessary values and resources necessary for poverty reduction. The social forces, opportunities, and circumstances that surround people determine their course of life.

Various economic factors such as national economic growth, labour and employment opportunities, and educational facilities in a country provide the right platform for people to reduce their poverty and vulnerabilities (Suich, 2012:2; Adjasi & Osei, 2007:451).This theory, therefore, suggest that the individual is not supposed to be blamed for his poverty but rather the economic, political, and social system in which the individual finds himself which causes people to have limited opportunities and resources should be blamed. (Bradshaw, 2006:5).

To emphasise structural theory of poverty, it can be argued that, national failures, failures resulting from bad government policies and programs can also create poverty situations for individuals. Lack of welfare systems, massive corruption, ineffective planning, and implementation of national projects, over spending, lack of effective healthcare systems, poor educational facilities and lack of alternative livelihood options can create and deepen the woes of the poor.

Indeed, it has been argued that influence of a restrictive and unfavourable larger economic and societal structures lead individuals into poverty (Wolf, 2007). Based on this argument, it can further be pointed out that the patterns of behaviour and characteristics of the system within the society can be realigned such that the prevailing poverty condition in the society can be reduced through the provision of micro-financing for the people. One may argue, how can this be possible? The answer remains clear in that, micro-financing schemes can be designed and well structured for the poor in the society.

2.7 THE CONSEQUENCES OF POVERTY

2.7.1 LOW INCOME AND CAPABILITY DEPRIVATIONS

Poverty, as discussed above, has a consequence on both the lives of the individual as well as the nation in which they reside. The available evidence reveals that around 10.7% of the world's population currently lives on less than US$1.90 a day (World Bank, 2013). Effectively, this means that about 767 million people currently live below the poverty line. These group of people, therefore, need various interventions to lift them out of the poverty of which microfinance is one.

One major consequence of poverty is that the poor have low-income levels coupled with their inability to save and invest. In most cases, income poverty is associated with human poverty (Rodgers, 2012; Melamed, 2015).

Low health and low educational levels are either the cause or the result of low income. Income and human poverty are normally also associated with social deprivations, high vulnerability to adverse events such as diseases, economic crisis, or natural disasters (Callander & Schofield, 2015:1639). This implication of individuals with low-income levels is that it culminates into a low national income of countries. This means that countries with higher national incomes have their citizens with higher individual incomes compared to developing countries where per capital incomes of individuals are very low. The richer a country is, the higher its national poverty line.

2.7.2 THE VICIOUS CYCLE OF POVERTY

One of the consequences of poverty is that it becomes a vicious cycle that entangles the poor for a very long time and affects their inability to mobilise savings and investment (Sakamoto, Rarick & Woo, 2014). Higher levels of income usually will result in higher savings and investment. However, since the poor are not able to save for future consumption nor invest into any income-generating activity, they remain in a vicious cycle of poverty (Melamed, 2015; Gopal & Malek, 2015).

The vicious cycle of poverty can also be extended to poor countries. In poor countries where most national incomes have to be spent on meeting current and often very urgent needs, savings capacity nationally tends to be lower than that of rich countries. This makes poor countries to remain in poverty for a very long time. It is also argued that with the small size nature of poor countries' economies, coupled with its lower saving rates, financing of desperate domestic investments such as the physical and human capital becomes hampered. It is therefore argued that an investment in micro financing for the poor is a key catalyst for addressing the issue of poverty in the sense that it empowers the poor to increase his or her income level (Addae-Korankye & Alex, 2012; Akotey & Adjasi, 2016).

It is this vicious circle of poverty that micro financing the poor has received so much attention lately. To understand and appreciate the importance of making microfinance accessible to the poor in Ghana to extricate them from poverty and vulnerability to it, it is important to get the true poverty picture of Ghana. However, to place Ghana's poverty picture in perspective, it is imperative to understand worldwide poverty outlook.

2.8 THE GLOBAL POVERTY OUTLOOK

Poverty remains one of the worst human developmental challenges all over the world. Its reduction has become a global challenge for nations, the international development and donor communities at large. (Azhar Khan, Muhammad, Zaman, Umar & Hassan, 2014). Therefore, the idea of reducing poverty has become a major goal for nations and the donor community globally (Chandy & Gertz, 2011; Haruna & Anawart, 2012:22; Sackey, 2004:11; Domfeh & Nyigmah, 2009:490; Khumalo, 2013:5643).

Domfeh & Nyigmah (2009:490) in their article titled ‘‘localizing and sustaining poverty reduction strategies’’ indicated that poverty has been and may probably continue for a long time to be one of the key challenges confronting global civilisation. They stated that even though the nature of poverty varies across countries, poverty is seen and experienced everywhere. It is therefore indicated that there were 767 million chronically poor people in 2013 and this number is estimated to 900 million in 2015 world (Domfeh & Nyigmah, 2009; World Bank, 2013).

But while poverty discussions and its reduction have dominated all organisational goals whether national or international, it has been very difficult to produce a comprehensive data on global poverty and its measurement. However, while many reports expect an increase in the poverty figures such as those noted above, current research indicate that, there has been a dramatic decline in the number of the world’s poor globally over the past six years, and that this trend is set to continue in the four years ahead (Chandy & Gertz, 2011; Haruna & Anawart, 2012:22; Linskey, 2007:11).

The latest comprehensive report in shows that, there were 767 million people leaving below a poverty line of US$1.90 per day in 2013. This implies that about 10.7% of the current global population is poor by this standard. Taking it further to numbers, it means 11 people in every 100 in the world are still poor by the World Bank’s 2011 purchasing power parity standard of US 1.90/day (World Bank, 2016).

Even though the total number of the global poor has reduced from 1.8 billion in 1990 to 767 million in 2013, the current figures are still alarming. The report has revealed that East Asia accounts for 3.5% of the world poor, Eastern Europe and Central Asia 2.3%, South Asia 15.1%, Latin America and the Caribbean 5.4%, Sub-Saharan Africa 41%. It is of interest to note that, whiles Sub-Saharan Africa has the largest number of the poor than any other region globally with a head count ratio of 41. % and a poverty gap of 15.9%, Eastern Europe and Central Asia has the lowest number of poor people with a headcount ratio of 2.3% and a poverty gap of 0.6% (Alkire, 2013; World Bank, 2016).

Solheim, (2013) has pointed out that about 1.65 billion in the 104 countries covered in the MPI 2013 survey live in a multidimensional poverty with a severe deprivation in the areas of health,education and standards of living. The table below shows global poverty distribution and its associated headcount poverty rate.

Table 2.1: World and Regional Poverty Estimates for 2013

Region	Headcount ratio (%)	Poverty gap (%)	Squared poverty gap (%)	Poor (millions)
East Asia and Pacific	3.5	0.7	0.2	71.0
Eastern Europe and Central Asia	2.3	0.6	0.3	10.8
Latin America and the Caribbean	5.4	2.6	1.8	33.6
Middle East and North Africa[a]	—	—	—	—
South Asia	15.1	2.8	0.8	256.2
Sub-Saharan Africa	41.0	15.9	8.4	388.7
Total, six regions	12.6	3.8	1.8	766.6
World	10.7	3.2	1.5	766.6

Source: (World Bank, 2016)

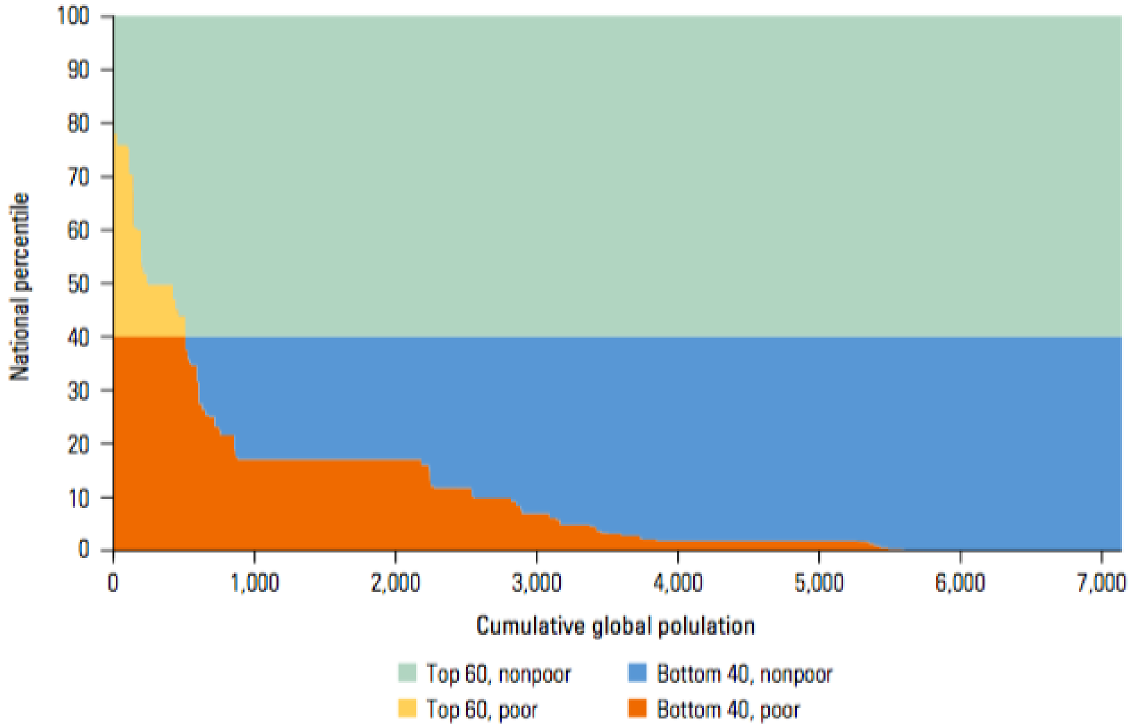


Figure 2.4: Distribution of the Extreme Poor, the Nonpoor, the Bottom 40, and the top 60 for 2013

Source: (World Bank, 2016)

2.8.1 POVERTY IN THE DEVELOPED WORLD

Current research has shown that little studies exist on the trend of poverty in the developed world. However, traces of poverty in the form of homelessness,capability deprivation and social exclusion exist in the so-called advanced countries (Shinn, 2010; Hick, 2014). Gaisbauer and Sedmak, (2014) has indicated that poverty,lack of capability and deprivation has been a neglected issue in Europe for a very long time and has now become one of the five targets of the European Union 2020 process. Schin, (2014) has indicated that about 16% of EU population is affected by the risk of poverty and vulnerability. In a study conducted by Smeeding (2005), the rankings suggest that the United States poverty rates were at or near the top of the range in terms of the incidence of poverty compared with other rich countries.

Child poverty is the dominant issue in developed countries. According to Padley and Hirsch (2013), the United States and the United Kingdom recorded the highest rates of child poverty. However, the United Kingdom made a substantial progress in reducing child poverty since 1999 (Padley & Hirsch, 2013).

Many strategies in reducing poverty in the developed countries focus on developing mechanisms to reduce inequality and social exclusion among its citizens (Schin, 2014). Some of these mechanisms include social insurance, child allowances social assistance transfer programs targeted on low-income populations, setting realistic minimum wages, labour market regulations, worker preparation and training programs, work- related benefits such as child care and family leave and other social benefits (Safaa, 2011; Bárcena-Martín & Moro-Egido, 2013; Kallio & Niemela, 2014).

This revelation of poverty in developed countries suggests that microfinance cannot be a reserve of only the developing countries. Indeed, microfinance can also be used in developed countries to extend financial capital to poor who are excluded from the formal financial system to create income-generating activities.

Having gained some perspective on the global poverty outlook, it is logical to progress to discussing the situation in the developing country context precisely and in Ghana specifically. An insight into the developing country context of poverty outlook will highlight Ghana’s poverty situation compared to other developing countries.

2.8.2 POVERTY IN THE DEVELOPING WORLD

The Developing world with its regions in Asia, Sub-Saharan Africa, Latin America, Caribbean and the Pacific countries which account for the vast majority of the poor in the World, are dominantly characterised by abject poverty, unstable economic growth, high unemployment rates, high dependency ratio, overpopulation, malnutrition and diseases (Vijayakumar, 2013:67; Adjasi & Osei, 2007:449). These countries have been afflicted with poverty and hunger over a very long period. Using the international poverty line of US $ 1.90, the developing world representing approximately half of the world's population are under abject poverty and severe deprivations in the areas of health, education, environmental sanitation as well as infrastructure (Haruna & Anawart, 2012:23).

The most populous countries in Asia such as China, India, Pakistan, and Bangladesh, which accounts for more than one-third of the world's population (41.1%), have a severe and widespread poverty and hunger. It is also interesting to note that two-thirds of the world's poor live in Asia and most of them are found in South Asia with 36% of its population living below the poverty line of US 1.90/day (World Bank, 2016). Having looked at the description of poverty in the developing world, poverty in Africa is discussed below.

To this, it has been seen that poverty is not only an issue pertaining to one country but also, a major concern for the developing world in general. This is the reason microfinance remains a dominant source of providing entrepreneurial capital in the developing world to reduce abject deprivations through the venture creation process.

2.8.3 POVERTY IN AFRICA

The development crisis that is facing Africa is unique and interesting. Not only is Africa classified as the poorest region in the world, but it was also the only major developing region with negative growth in per capita income during 1980 –2000 (Collier, 2007:3; Ben Amar & Zghidi, 2016:118). The African poverty is most prevalent in rural areas with the rural populace facing high-income inequality and severe deprivations and lack of human capabilities, low income, poor life expectancy, poor maternal health,high illiteracy rates, HIV/AIDS, poor nutritional levels, and poor access to safe drinking water (Adjasi & Osei, 2007:451; Igbokwe-Ibeto, Akhakpe & Oteh, 2012:367; Osei-Wusu, Adjei, & Buor, 2012:232).

There are over 200 million people trapped in abject poverty in Africa (Davids & Gouws, 2013). In Sub-Saharan Africa, the incidence of poverty is manifestly high with an average of 66.2% of the population living below the poverty line (Davids & Gouws, 2013). In almost all African countries, poverty has become chronically endemic and its vicious cycle is transmitted from generation to generation. This generational poverty is being fuelled mostly by unstable and poor economic growth, high population growth rate, and lack of education, severe unemployment, low wages, and corrupt political leadership (Igbokwe-Ibeto, Akhakpe & Oteh, 2012; Neu, Everett & Rahaman, 2015).

In the achievement of the Millennium Development Goals of halving poverty between 1990 and 2015, all regions globally have achieved their targets by 2015 except Africa.

Estimates from a household survey in Africa indicate that the share of people living on less than US $1.90 a day (the 2011 international purchasing power) fell marginally from 57% to 43% in 2012. However, the number of poor people have increased from 288 million to 389 million (Beegle, Christiaensen, Dabalen & Isis, 2016).

Although urbanisation is rising quickly in Africa, most countries (65-70%) of the population in Africa still reside in rural areas with higher poverty rates coupled with scarce resources to support livelihood (Canning, Raja & Yazbeck, 2015).

In overall terms, Africa’s population has seen some tremendous progress in most of the non-monetary dimensions of poverty measurement, particularly in health, education, and freedom from violence. Between 1995 and 2012, adult literacy rose by 4%. Gross primary school enrolment rates increased by 10% whilst the gender gap in education decreased by 20%. Life expectancy at birth rose to 6.2 years among children. The prevalence of chronic malnutrition also fell by 6%. However, it is of interest to note that deaths from politically motivated violence have also reduced by 75% (Beegle, Christiaensen, Dabalen & Isis, 2016).

The profound observation is that Africa as a continent is suffering from governance and leadership crises, which has worsened Africa’s plight over the years. However, the argument is that good governance can never exist in Africa where resources are not available or over stretched (Lukhele-Olorunju, 2012). This is because good governance requires real resource allocation to meet the needs of the populace.

Africa’s growth failure has drawn an attention for some explanations and strategies to deal with it. According to Collier (2007), the challenge of Africa’s poverty will require a different strategy such as a redistribution of national resources to affect the poor. The World Bank during the 1980’s diagnosed the problem as inappropriate economic policies. Recently three further explanations have gained currency in explaining the Africa’s endemic poverty situations to be caused by institutions, leadership failure and geographical challenges (Beekmana, Bulte & Nillesen, 2013:70; Justesen & Bjørnskov, 2014:106).

Rossouw and Fourie (2010) have also argued that rich countries need to make contributions in terms of development assistance to Africa.This will help the continent to meet the MDGs by 2015 in eradicating extreme poverty and hunger, achieving universal primary education, promoting gender equality and empowering women, reducing child mortality, improving maternal health, combating HIV/AIDS, malaria and other diseases, ensuring environmental sustainability, and developing a global partnership for development (Gobind, Allah, Mohammad & Riaz, 2008:186).

So far, the study has provided a clear understanding of poverty levels and the consequences of poverty in Africa as well as the need to design workable solutions to addressing the issue of poverty in the continent. Having done this, it is equally important to look at poverty in Ghana which is the research context of this study. The following section provides the poverty outlook in Ghana.

2.8.4 POVERTY IN GHANA

Ghana since independence in 1957, has pursued and implemented several policies and programmes towards the reduction of poverty. These programmes include Ghana Vision 2020; The First Step (1996-2000); the First Medium-Term Plan (1997-2000); Ghana Poverty Reduction Strategy (2003-2005); and the Growth and Poverty Reduction Strategy (2006-2009). Under these strategic programmes, substantial progress was made towards the realisation of macroeconomic stability and the achievement of poverty reduction goals. However, large fiscal and balance of payment deficits have remained a huge structural challenge till today (International Monetary Fund, 2012).

2.8.4.1 General Economic Performance of Ghana

Over the past two decades, Ghana has posted a strong economic performance with a GDP growth rate between 4% to 5% resulting in a steady growth in the year 2000. (Molini & Paci, 2015). However, by 2006 Ghana has reached a GDP growth rate of 8%. Comparatively, the Ghanaian economy has grown more quickly than any other Sub-Saharan African country. The evidenced economic growth has translated into a quicker poverty reduction. Between 1991 and 2012, Ghana’s poverty rate has reduced from 52.7% to 21.4% (Molini & Paci, 2015). This performance was remarkably in line with the achievement of the MDG 1 which was to be achieved by 2015. By 2012, Ghana has witnessed a poverty rate which was less than half of the African average of 43%. The extreme poverty rate even reduced more quickly than expected; reducing from 37.6% in 1991 to 9.6% in 2012.

The above economic growth resulted in Ghana making a steady progress beyond income poverty into various non-monetary indicators. For instance, infant mortality declined from 57 deaths out of 1,000 live births in 1998 to 41 in 2014. Under 5 mortalities had also declined by half (Coulombe & Wodon, 2007:3; Ackah, Aryeetey, Ayee, Clottey & Ezekiel, 2009).

2.8.4.2 Population Growth

The results of the 2010 population and housing census, which is the most recent, shows that the total population of Ghana is 24,658,823, an increase of 30.4 percent over the 2000 population figure of 18,912,079 with an annual growth rate of 2.5 percent in 2010 percent as against 2.7 percent recorded in 2000 (Ghana Statistical Service, 2010). Ghana’s population is made up of 38 percent urban dwellers and 62 percent rural dwellers (Ghana Statistical Service, 2010;Petra & Charles, 2012). The breakdown of the total population of Ghana is shown below.

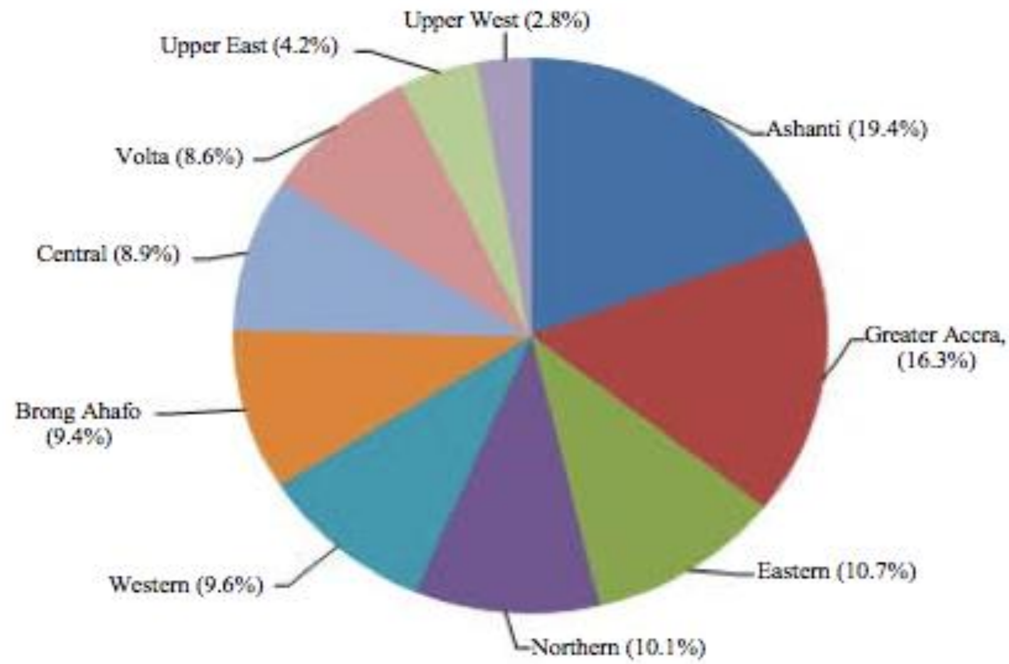


Fig. 2.9 The percentage share of Ghana's Population by Region
Source: (Ghana Statistical Service, 2010:1).

However, despite the gains in both economic growth and its associated poverty reduction, Ghana currently faces several challenges in the areas of the achievement of the Millennium Development Goals (MDG), especially those relating to maternal mortality, agriculture, child mortality, gender equality, infrastructure, and environmental sanitation. There is also a challenge of major regional inequalities in income levels, social services, housing, and nutrition with Northern Ghana experiencing higher levels of poverty (Annim, Mariwah & Sebu, 2012:2; Awumbila, 2006:149). The challenges are discussed below.

2.8.4.3 The Agricultural Sector

Agriculture remains the single largest sector in Ghana which provides income and employment to a large population. Subsistence agriculture remains a major preoccupation of almost every household in Ghana. About 3.4 million households in Ghana own or operate a farm or keep livestock (Ghana Statistical Service, 2010). The economy of Ghana depends largely on agriculture accounting for nearly 40% of GDP and 50% of all employment. Ghana's agricultural sector is still characterised by inefficient farming practices, dependence on rain-fed, and poor transport and lack of distribution channels. The nature of the agriculture sector has failed to create decent employment and provide living wage since most farmers are still subsistence in nature (Derbile & Dongzagla, 2016; Banson, Nguyen & Bosch, 2016).

Poverty studies in Ghana, including various Ghana Living Standard Surveys (GLSS), reveal that poverty in the cocoa-growing areas of Ghana is continuously falling while that of the food crop growing areas and fishing communities continues to rise (Ghana Statistical Service, 2010)

2.8.4.4 Housing Deficit

In the recent Ghana Living Standards survey, it became clear that housing is still a challenge for most families in Ghana. Most households in Ghana (79%) still live in compound houses with no adequate ventilation and toilet facilities. Only one out of every ten households in Ghana (22.2 percent in urban and 1.1 percent in rural) has access to a flush toilet (Ghana Statistical Service, 2010). Also, about 45 percent (26 percent in urban areas and 59 percent in rural areas) of the households in Ghana own the houses they live in. About 73 percent of urban households have access to pipe-borne water compared to only 14 percent of rural households. Moreover, only about 44 percent of all Ghanaians are estimated to have access to piped-borne water and sanitation facilities in their households (Ghana Statistical Service, 2008; Obeng-Odoom & Amedzro, 2011).

2.8.4.5 Energy Sector

Ghana is faced currently with inadequate access to modern energy services such as liquefied petroleum gas(LPG) and electricity albeit some improvement in the last few years. This situation has created an over-dependence on traditional sources of energy such as firewood and charcoal with about 76% of Ghanaians depending ion biomass for their daily needs (Gyamfi, Modjinou, & Djordjevic, 2015; TeiMensah, Marbuah, & Amoah, 2016).

In terms of energy and electricity, 79 percent of households in urban areas have electricity for lighting as against 27 percent of households in rural areas that have an irregular supply of electricity. Charcoal has remained the most popular source of cooking fuel for urban households (52.6 %) whereas firewood is the main source of cooking for rural households (80. 2%) (Ghana Statistical Service, 2010). This has led to excessive environmental degradation and the change in rainfall patterns which eventually affects agricultural production. All these factors point to the endemic nature of poverty in Ghana (Appiah-Kubi, Amanning-Ampomah & Ahortor, 2007**;** Adjasi & Osei, 2007; Ghana Statistical Service, 2008).

2.8.4.6 SMMEs

SMMEs are widely considered as the backbone of many economies of developing countries. However, in Ghana, SMMEs face several challenges which make them unable to contribute effectively to economic development efforts. MSMES are faced with insecure land property rights, lack of access to financial capital, unreliable electricity, and the use of over-crowded space for their operations (Jörg, Maximiliane & Strupat, 2015).

Notwithstanding the above challenges, SMMEs remain a dominant part of the Ghanaian economy. About three million, two hundred thousand (3,200,000) households representing 46 percent of all households in Ghana operate non-farm enterprises with women operating 72 percent of these businesses (Ghana Statistical Service, 2010). Some 52 percent of the households operating nonfarm enterprises are found in urban localities. Almost half (49.5%) of all businesses involve trading, and most of the rest are into some basic manufacturing (Appiah-

Kubi, Amanning-Ampomah & Ahortor, 2007:9; Ghana Statistical Service, 2008).

2.8.4.7 Access to Credit and Savings Facilities

Access to credit and savings facilities has remained a hurdle to the growth of Micro, Small and Medium Enterprises (SMMEs) in Ghana (Kessey, 2014). The Ghana Living Standard Survey, 2014 has revealed that the main source of capital for SMMEs is household savings (60%) and assistance from relatives or friends (20%). More than 27% of all households owe money or goods to other persons, institutions, or businesses and only 6 percent can pay fully a loan in the preceding 12 months (Ghana Statistical Service, 2010; Bercaw, 2012).

The extent of indebtedness, as measured by the proportion of households taking out loans, is lower in urban areas (24.1 %) than in rural areas (29.8 %) (Ghana Statistical Service, 2010). Over half of household, loans come from relatives, friends and neighbours. Traders form the second most important source of loans for households followed by state banks and microfinance institutions. Most of these loans are contracted without any guarantee and are meant for household businesses. In terms of savings, just a third households in Ghana have savings accounts. Two-fifth of urban households operates savings accounts as against only 22 percent of their rural counterparts. More males (60%) have savings accounts than females (40%) and this is the case for all localities (Ghana Statistical Service, 2010).

2.8.4.8 Life Expectancy

Even though Ghana has made considerable progress in the reduction of poverty over the last fifteen years, life expectancy at birth continues to linger around 58 years and still ranks below the world's average of 65 years. Infant and under-five mortality rates are still high at 62 and 102 per 1000 births respectively (Ghana Statistical Service, 2010). In addition, Ghana's gross primary school enrolment rate of 79 percent is still lower than the average of lower income countries (Osei-Wusu, Adjei, & Buor, 2012:232).

From the above discussion, it can be noted that poverty is endemic in Ghana, and only a well-defined and targeted strategy can entirely eradicate it, or at least reduce it. (Debrah, 2013) has therefore suggested that the high levels of poverty particularly in the rural areas where there is a lack of food, water,shelter, and clothing require an intervention from all stakeholders in order to deal with it.

Adjasi and Osei (2007:467) have also contributed in proposing strategies in reducing Ghana's poverty by stating that, there is the urgent need to develop Ghana's socio-economic infrastructural base which is necessary for improving the living standards of the population, particularly in the three northern regions where poverty is endemic and generational. The researchers also pointed out that, the agricultural sector needs to be modernised and improved to create jobs for the teeming unemployed youth.

Therefore, having gained a comprehensive insight into poverty, a natural question that can be posed is what strategies are available in reducing the global menace.The sections below discusses poverty reduction strategies.

2.9 POVERTY REDUCTION STRATEGIES

Poverty reduction has become one of the most dominant discussions on economic development platforms and its importance cannot be underestimated (Lenagala & Ram, 2010:923). However, as indicated above, it seems poverty has defied all solutions and strategies and not much has been achieved when it comes to global poverty reduction. In the context of this study, the main argument is that microfinance remains a powerful tool for the reduction of poverty especially in the developing world and particularly in Ghana (Copestake, 2007; Chowdhury, 2009).

In this regard, microfinance is a catalyst for supporting individuals in the creation of employment and income generation opportunities leading to poverty reduction (Addae-Korankye, 2012;Annim & Alnaa, 2013). From this point of view, one cares to understand the concept of poverty reduction. In effect, poverty reduction is defined as designing,implementing and targeting appropriate methods to ensure that scarce resources are allocated to activities that are likely to yield the greatest impact on the poor and decrease their levels of deprivation and vulnerability (Page & Shimeless, 2015; Saleem & John, 2016).

Poverty is a very complex problem. Nipping it in the bud effectively requires a multi-faceted and coherent approach. In doing this, numerous policy domains and sectoral programmes must be integrated around this overwhelming concern (Saleem & Donaldson, 2016). This range of programmes should include a favourable and stable macroeconomic framework, affordable and quality education, good health care system, infrastructure, and the development of key enterprises that can create wealth and generate decent employment (Toye, 2007). Access to employment and income generation opportunities, especially for low- and middle-income households is central to any poverty reduction strategy that is workable (Lenagala & Ram, 2010).

Poverty is a multidimensional phenomenon (Coromaldi & Zoli, 2007; Olivera & Tounier, 2016). Therefore, any attempt in reducing it should be holistic in nature and approach. The multidimensional view of poverty as a phenomenon leads to a clearer understanding of its causes and to a more comprehensive policy aimed at its reduction. Poverty reduction efforts can take place at the individual, community, and the national levels. The World Bank (2004), after evaluating all its poverty reduction initiatives through to 2003, has indicated that all poverty reduction strategies should have the following characteristics.

- Country-driven and -owned, predicated on broad-based participatory processes for formulation, implementation, and outcome-based progress monitoring;

- Results-oriented, focusing on outcomes that would benefit the poor;
- Comprehensive in scope, recognising the multidimensional nature of the causes
- of poverty and measures to attack it;
- Partnership-oriented, providing a basis for the active and coordinated participation of development partners (bilateral, multilateral, non-governmental) in supporting country strategies; and
- Should be based on a medium- and long-term perspective for poverty reduction, recognising that sustained poverty reduction cannot be achieved overnight.

A close look at the World Bank's approach to poverty reduction strategies reveals the truth that there is the need for country participation, ownership and involvement in every poverty reduction strategy which is supposed to be sustainable, transformative and deliver the right variables (Ahmad, 2016). This is to say that Poverty reduction strategies and expected change cannot be imposed from outside the country specific. Any attempt to impose a strategy externally will endanger developmental efforts as well as meet implementation challenges. Actual priorities and actions need to be worked out in each country's economic, socio- political, structural, and cultural context (Joseph, 2010; Achimugu, Abubakar, Agboni & Orokpo, 2012).

In addressing global poverty issues, apart from the issues of economic growth and income distribution, other soft issues such as equitable access to health care delivery, provision of affordable and quality educational facilities, and the development of social security systems and the creation of employment opportunities are paramount and need intensive actions at local, national, and global levels (Hughes & Haworth, 2011).

Making progress on all three fronts can, therefore, generate the dynamics for sustainable poverty reduction. Strategies designed to reduce poverty must allow for interaction of the various aspects since one strategy can reinforce the other strategy. For example, improving social security for the poor not only makes them feel less vulnerable but also allows them to take advantage of higher-risk opportunities, such as moving to another location or changing qualifications or even engaging in a microenterprise by participating in a microfinance programme.

The (World Bank, 2001) has prescribed an action framework for poverty reduction across countries which is still valid in reducing the poverty menace today. The three areas of action are ***opportunity, empowerment, and security***. These priority areas are interconnected and they perform complementary roles in reducing poverty.

For the purposes of this section, this approach is adopted as a basis for poverty reduction programmes. The three areas of poverty reduction are discussed below.

2.9.1 OPPORTUNITY

It is a truism that economic growth in a country is essential for expanding economic opportunities for poor people (Shalini, Boopen & Rojid, 2009; Olli, 2008:225). This growth should be rapid, sustainable, and pro-poor.

Therefore, in ensuring economic growth in a country and expanding economic opportunities for the poor, it is important to state that microfinance plays a significant role in achieving this (Copestake, 2007; Chowdhury, 2009; Akotey & Adjasi, 2016).

There must be effective and sustainable micro-financing schemes which take the needs of the poor and their peculiar circumstances into consideration. In effect, this should be done in a conducive environment for the opportunities to flourish. A business environment that is conducive to both private investment and technological innovation is necessary for propelling the economic gains of a country (Al Mamun, Muniady, Yukthamarani, Noor & Mohamad, 2016).

The availability of both political and social stability is essential in sustaining a rapid economic development in a country. This is because it enhances both public and private investment which eventually contributes to poverty reduction. When economic growth is achieved, its distribution also poses another challenge in various countries. The distribution of growth benefits matters, because distributional conflict can undermine the stability needed for overall growth (Olli, 2008:225).

Olli (2008:225) has substantiated the fact that there is an interconnection between macroeconomic growth and poverty reduction. A sound economic policy coupled with an external support leads to economic growth which eventually has a redistributive effect which is necessary for poverty reduction (Besley & Burgess, 2003:10). The figure below depicts the perception of the impact of macroeconomic development on poverty reduction.

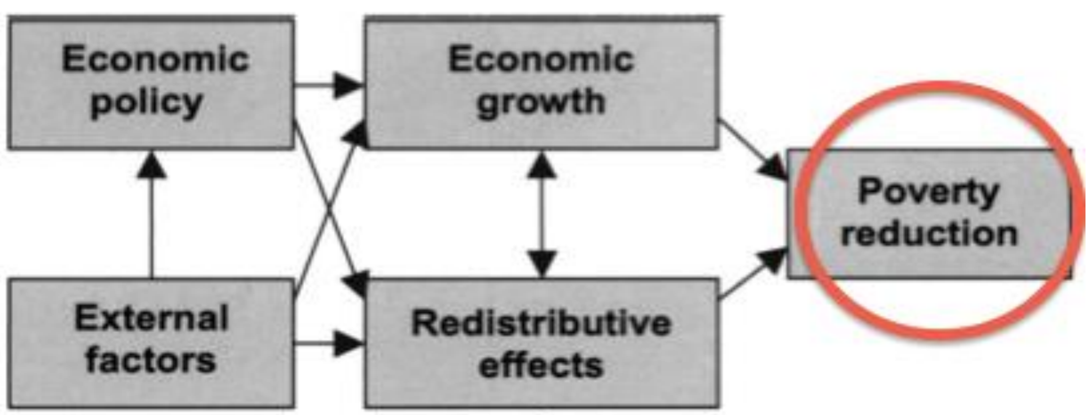


Fig. 2.11 Macroeconomic view of Poverty Reduction
Source: Olli (2008:226)

Effective and robust markets are central to the lives of poor people. Evidence shows that on average, countries that are open to international trade and have sound monetary, fiscal policy and well-developed financial markets enjoy higher growth (Chyi & Hwang, 2011). Where market-friendly reforms have been successfully implemented, economic growth is enhanced and inequality is reduced. These reforms are necessary to bring gains to poor people and to break down monopoly privileges for the rich. The market reforms can take different dimensions such as eliminating or simplifying the regulations affecting micro enterprises and small and medium-size firms, strengthening registries to allow small producers to use land as collateral, or developing the policy framework for small-scale insurance and increasing the access to credit for venture creation purposes (Zaefarian, Tasavori, & Ghauri, 2015)

Education and Health opportunities are also important in reducing poverty in all countries (Yanagisawa, 2011; Cremin & Nakabugo, 2012:499). Building the Human capabilities of the poor such as health and education are of intrinsic value, but also have powerful instrumental effects on material well- being of citizens. Improving educational opportunities especially for the young population is inevitable if poverty is to be reduced on a sustainable basis. The educational opportunities enable individuals to develop skills that make them employable and this improves their quality of life (Odior, 2014:150; Khan, 2015:124).

The last opportunity that needs to be provided for poor people as an attempt to reduce their poverty is ownership of assets in society (Searle & Köppe, 2014:3). Poor people should be supported to have access to assets such as land, housing facilities, infrastructure, social networks, and financial services. A range of actions can support poor people in expanding their assets. The state can have a redistribution policy that gives access to the poor to acquire assets such as land with minimum cost and effort. For many other services and assets, market mechanisms, civil society, and the private sector can complement the role of the state in delivering such goods to the poor (Xiaoying, Jiang & Zhihong, 2013; Kalirajan & Singh, 2009).

From the above discussion, it is of great importance to add that one of such strategies of creating opportunities for the poor is to provide the poor with micro-financing to support their income generating activities. Through this, the people can support themselves expand their assets to improve their wellbeing. Indeed, if they are able to access microfinance on a sustainable basis, they will be able to grow their businesses to support their livelihoods and by so doing poverty will be reduced.

2.9.2 EMPOWERMENT

The term empowerment means enhancing the capacity of poor people to influence the state institutions that affect their lives. (Kao, Chen, Wu, & Yang, 2016). This is done by strengthening their participation in political processes and local decision-making. Empowerment also means removing the political, social, economic, and legal barriers that work against particular groups of people in society. Empowerment helps build the assets of poor people to enable them to engage effectively in markets that they find themselves (Hillbom, Alm, Inghammar & Mahmoud, 2012:207).

The first kind of empowerment needed to reduce poverty is economic. Expanding economic opportunities for poor people contributes to their empowerment and effective participation in society. (Nandera, 2016:20). But efforts are needed to make state and social institutions work in the interest of poor people. A high GDP per capita is one of the surest ways to reduce poverty. This will enable poor people to afford food, housing clothing and other necessities as well as engaging in decent employment to earn meaningful wages (Bercu, 2011).

Political empowerment is necessary for all poverty reduction strategies (Bayulgen, 2015:131). Formal democratic processes are part of empowerment. This is because political structures are the means by which governments help or hurt poor people. Ensuring government accountability, local decision making, free and fair elections, the rule of law, freedoms of speech and association are all means of empowering poor people to take their own destiny into their hands.

Government decisions especially in developing countries, therefore, need to be pro-poor and particularly geared towards women empowerment (Goltz, Buche & Pathak, 2015:608). This implies governments need to reduce corruption by all efforts because corruption affects the poor much more than the rich.

Socially, individuals and communities can be empowered when beliefs, culture and values of communities can be turned into a source of sustainable development. (Hani, 2011). These values and beliefs are supposed to build the community rather than breaking them into conflicts and anarchy.

Customary practices that foster discrimination based on gender, ethnicity, race, religion, or social status can also be a source of inequality in many countries and should be avoided (Ali, 2014:119). Removing discrimination and managing these divisions can help reduce poverty. Confronting gender inequities comes with direct benefits for women and men, which has instrumental effects on growth and development. Evidence has shown that greater gender equity is associated with faster growth in countries (Duflo, 2012:1051).

It has been shown above that the forms of empowerment that can contribute to poverty reduction are economic, political, social, and cultural empowerment. From this explanation, it can be argued that to liberate the poor from economic, political, social, and cultural barriers, it is important to state that, the poor must be able to have the confidence and assertiveness to be able to participate effectively in societal decision making.

In this regard, to be able to empower the poor, it must begin from reducing their poverty levels and this will contribute to strengthening their economic, social, and political positions. This study, therefore, argues that the surest way of reducing the poverty levels of the poor is to provide them with a sustained microfinance facility which can provide the right empowerment economically, politically, socially, and culturally. In effect, the poor accessing microfinance increases their self-confidence and in the end, improves their status in the society.

2.9.3 SECURITY

Poor people are vulnerable to all kinds of shocks, risks and situations that confront them. Security systems, therefore, need to be provided to the poor as a safeguard against all kinds of vulnerabilities (Morris, 2007:65). Enhancing security for poor people means reducing their vulnerability to such risks as ill health, economic shocks, and natural disasters and helping them cope with adverse shocks when they do occur in their lives (Bercu, 2011:120).

Poverty reduction strategies should be directed towards reducing the vulnerability of poor households through a range of approaches that can reduce volatility, provide the means for poor people to manage risk themselves, and strengthen both private and public institutions that provide risk management services to the poor (Michálek & Veselovská, 2015:70). These institutions should be helped to design and pursue higher-risk, higher-return activities that can lift the poor out of poverty. The tools that could be used include health insurance, old age assistance and pensions, unemployment insurance, welfare programs, social funds, microfinance programs, and cash transfers. (Bercu, 2011).

When poor people have different kinds of assets as such human, natural, physical, financial, and social, it provides a security system for them which in turn reduce their vulnerabilities and even help them to cope and manage with uncertain circumstances when they do occur. Leeson (2008:39) has therefore indicated that there is the need to provide safety nets to support the accumulation of human, physical, and social assets by poor people.

Many other approaches apart from the World Bank's framework have been recommended by both researchers and practitioners to reduce poverty globally. Some of these approaches include; aggressive and innovative agricultural development (Phulpoto 2007; Gobind, Allah, Mohammad & Riaz, 2008; Morris, 2007), domestication of poverty reduction strategies and good governance (Frediani, 2007:133), expansion of educational opportunities, removing discrimination and social injustice (Yanagisawa, 2011; Bercu, 2011; Achimugu, Abubakar, Agboni & Orokpo, 2012), the availability of human, financial and physical resources including infrastructure to support poverty reduction (Kalirajan & Singh, 2009 Desai, 2010), macroeconomic development (Olli, 2008) and finally the promotion of entrepreneurship (Schramm, 2013).

2.10 CHAPTER SUMMARY

The above discussions have highlighted some very important issues in the discourse of poverty research.

Firstly, global poverty reduction cannot be divorced from the World Bank's framework and other proposed approaches as discussed above. The phenomenon of poverty must be understood both as a painful reality experienced by millions of human beings globally.

The category of 'the poor' and what we describe as 'poverty' level needs to be well conceptualised, well defined and measured properly. This is the only way that poverty reduction efforts could be realised. How we approach the question of definition has important implications and ramifications for policy formulation and implementation for the treatment of those categorised as 'poor'. The changing distribution of global poverty challenges the orthodox view that most of the world's extreme poor live in the world's poorest countries. However, there is evidence of poverty traces even in the advanced countries. This is to say that poverty is a global phenomenon rather than a third world problem. Poverty reduction, therefore, required a global approach hence the SDGs.

Secondly, in measuring poverty, the right tools need to be used. Normally monetary and non-monetary indicators are deployed in measuring the incidence of poverty across countries. Measuring income levels financial resources of the poor remains central, but having indicators to measure deprivation adds to our ability to capture poverty and social exclusion even when information on income over time is available. When used with care non-monetary indicators contain valuable information, which, together with data on financial resources, can improve our measurement and understanding of poverty.

Also, eliminating poverty, is not an issue of mere increased social consciousness. Poverty is closely associated with all the economic, political, social, and cultural ills of a country. Alleviating it requires a rigorous approach, which should be multidimensional in nature. Poverty is strongly related to lack of basic needs, especially food, clothing, and shelter.

The poor have a higher dependency ratio, single earner, less access to health care, low education and are normally unskilled. Poverty alleviation programmes can be subsidy driven or income driven. Addressing poverty-related issues needs a multi-stakeholder approach that includes the intervention of government, NGOs, the private sector, and community organisations as well as the poor themselves.

In addition, the provision of safeguards to the poor against all forms of vulnerabilities is one of the poverty reduction strategies. It is arguable to justify that when disaster strikes, the poor appear to be afflicted the most due to their vulnerabilities involved in a poverty cycle. Therefore, any poverty reduction strategies in the form of security should indeed be directed towards lessening the vulnerability of the poor. From this point of view, this study argues that even though micro-financing cannot be a miracle to prevent disasters, it can be a solution to reducing the poverty levels of the poor. This eventually could contribute to reducing the vulnerabilities of the poor.

Achieving the SDGs and other internationally agreed development goals globally and in Africa, holds the promise of saving millions of lives, ending the scourge of hunger and malnutrition, and ensuring that Africa's children are empowered through education and good health to lead productive lives. Investing in the attainment of the SDGs is a critical step in charting a course towards sustained stability and economic growth that will build capital, attract foreign investment, and overcome Africa's current dependence on external assistance.

The effort and resources put into reducing poverty in Ghana by successive governments and donor agencies over the years cannot be overemphasised. Even though poverty reduction in Ghana has seen a lot of progress over the last two decades, much is still expected in meeting the Sustainable Development Goal (SDGs) by 2030.

To put it simply, Ghana's efforts and sums of money spent on reducing poverty over the years have not yielded many results. It is still very clear that from the Ghana Living Standards Survey (GLSS) that, four out of every ten Ghanaians live in poverty. Many of them remain peasant farmers, mostly in food crop farming. Many others are also engaged in micro and small enterprises or finding a survival income as daily casual labourers. Today, two-thirds of the working population outside agriculture is active in the informal sector. Women, particularly have remained poor despite all efforts by government and many other Non-Governmental Organisations to reduce their vulnerability.

Finally, Entrepreneurship development is one of the surest ways of creating employment, especially in developing countries. Employment generates incomes, and incomes have an effect on poverty reduction. Besides, as can be seen from the discussion in this chapter, microfinance seems to fit in well with each strategy for poverty alleviation. However, for microfinance to be really empowering, it must be sustainably utilised in a venture creation process. This is where entrepreneurship has been touted as important to empowerment and security hence poverty alleviation. The next chapter is therefore dedicated to the discussion of promoting entrepreneurship.

CHAPTER 3: THE ROLE OF ENTREPRENEURSHIP IN POVERTY REDUCTION

3.1 OUTLINE OF THE CHAPTER

Figure 3.1 below illustrates the sequence of this chapter.

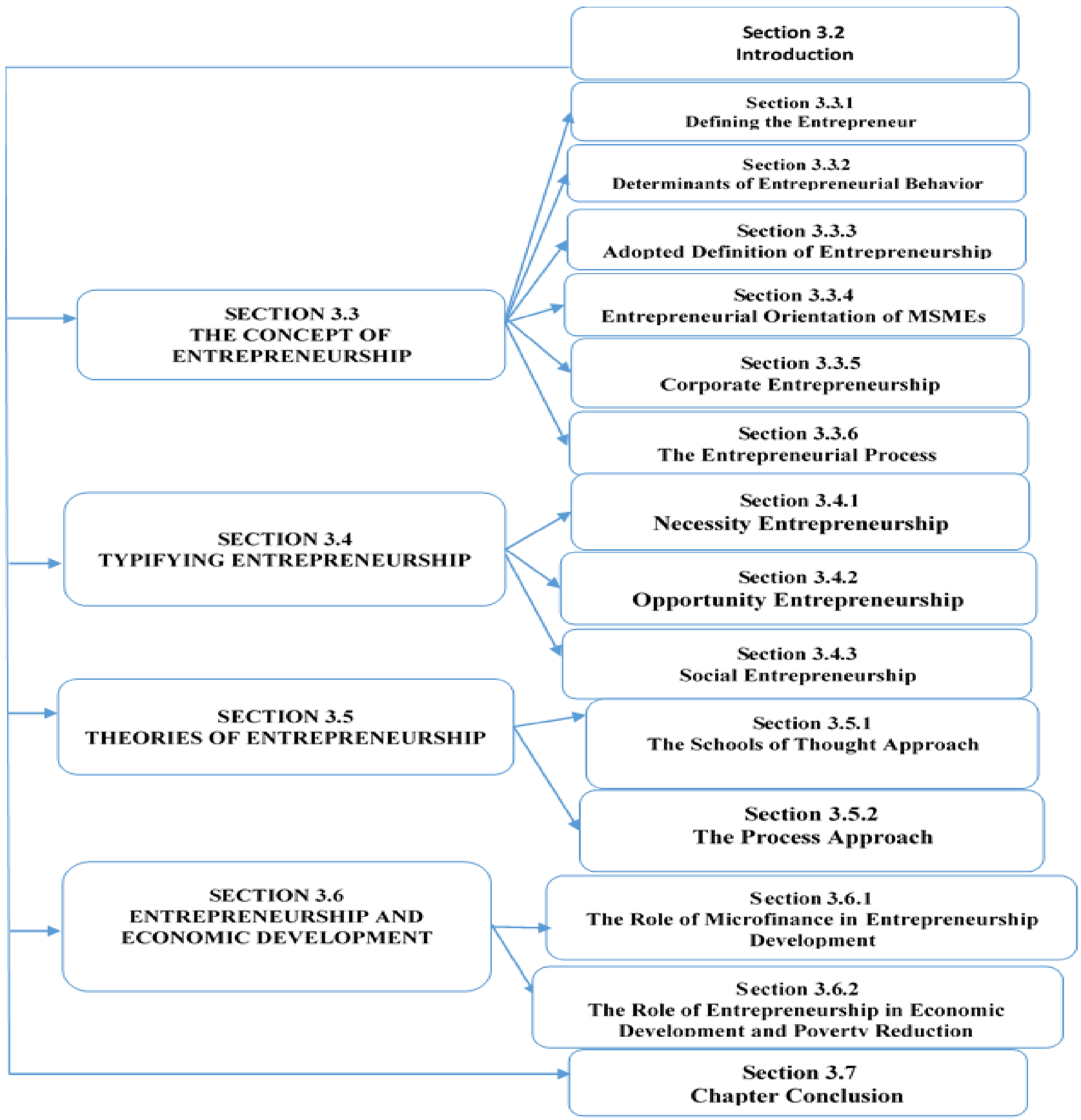


Figure 3.1 Outline of Chapter 3

3.1 INTRODUCTION

The previous chapter discussed in detail the concept of poverty and the various strategies targeted at reducing it. From the discussion, it emerged that, microfinance can reduce poverty. However, microfinance alone cannot reduce poverty except through the venture creation process of the poor. Microfinance is, therefore, an enabler of such an entrepreneurial endeavour especially in a developing country context like that of Ghana.

Microfinance is inevitable in pushing such an entrepreneurial agenda for poverty reduction purposes because many poor people are excluded from accessing any formal credit from commercial banks in Africa and Ghana specifically (Andrianova, Demetriades & Shortland, 2008:218). This has SMMEs to rely on microfinance institutions for their credit needs (Hermes & Lensink, 2011:875; Chliova, Brinckmann & Rosenbusch, 2015:467). From this perspective, entrepreneurship is regarded as a sustainable way of reducing poverty or at least contributing to the poverty reduction efforts. This makes entrepreneurship promotion an appealing proposition in a developing country like Ghana where the poverty statistics reflected in Chapter Two is very disturbing.

This is not to say that, the role of entrepreneurship in poverty reduction is or should be limited to developing countries. Rather, in fact, policymakers in the industrialised world also have attached a high level of importance to entrepreneurship as a pragmatic solution to a range of socio-economic and political challenges. It is therefore not surprising that a similar agenda needs to be pushed in developing countries where governments are struggling with various means to reduce poverty of their citizens, which is almost endemic and chronic in nature. It appears therefore that entrepreneurship promotion remains unavoidable and is perceived as crucial to the economic health of all nations currently.

Entrepreneurship promotion and new venture creation is one of the key drivers of any national economy. This is because; entrepreneurs perform various roles in an economy. For instance, they create jobs, ensure growth in the economy, they pay tax to governments, serve as the cradle for entrepreneurial skill development and they turn to have a direct impact on the contribution to the Gross Domestic product of any country. Therefore, promoting entrepreneurship especially in developing countries is paramount in their attempt to reduce poverty and provide decent livelihoods to their citizens.

This chapter focuses on the concept of entrepreneurship promotion, with specific emphasis on understanding how it enables the poor to extricate themselves from poverty. Specifically, the chapter deals with the concept of entrepreneurship and the various definitions that are attributed to it. It also looks at the various types of entrepreneurship and examines the various theories that underpin entrepreneurial research. The roles of entrepreneurship in national development are also discussed. The discussion also includes entrepreneurship promotion across Africa with emphasis on Ghana; the various challenges that beset entrepreneurship promotion in general as well as the specific challenges that are faced in Ghana in the development and promotion of entrepreneurial initiatives. A critical examination of the role of microfinance in entrepreneurship development has also been reviewed.

3.2 THE CONCEPT OF ENTREPRENEURSHIP

There are many definitions of the concept of entrepreneurship in literature. This is the case because, academics and practitioners have not come into any consensus as to what this concept really means (Dzansi, 2004; Strokes & Wilson, 2006; Balkiene & Jagminas, 2010:33). Although the origin of the concept of entrepreneurship remains contested, a good number of authors agree that the term was first introduced into economic theory by Cantillon in 1775 who used the word ‘*entreprendre’* meaning ‘*to undertake’* (Kuratko, 2009)*.* However, it has also been pointed out that it is Say in 1803 who gave popularity to the concept (Kruger, 2004).

Whereas Venter, Urban, and Rwigema (2008) has defined the concept as the act of setting up a new organization of value*,* Strokes and Wilson (2006) defined entrepreneurship as the process of creating something new and of value by allocating the necessary resources such as material, time, effort, financial and thereby assuming the financial, psychic, and social risks with the hope of receiving rewards of monetary, personal satisfaction and independence.

Nieman and Nieuwenhuizen (2009) also see entrepreneurship as the emergence and growth of a new business with profit motive being the real motivation for the entrepreneur. The researchers emphasised that, entrepreneurship is a process that causes changes in the economic system through innovations of individuals responding to opportunities identified in the environment and thereby creating value for themselves and society at large (Wolfe & Shepherd, 2015; Foo, Uy & Murnieks, 2015; McKeever, Jack & Anderson, 2015:50).

This value according to Strokes and Wilson (2006) can be personal wealth, family security and social inclusion. However, both Dimov (2011:57) and Suddaby, Bruton, and Si (2015:1) have pointed out that entrepreneurial opportunities don't just exist in the environment for the entrepreneur to discover and exploit but rather opportunities are also supposed to be created through the imaginative and social power of the entrepreneur. The entrepreneur is therefore expected to mobilise resources that transform and create the environmental conditions that innovate products and create acceptance for those products in the marketplace (Welpe, Spörrle, Grichnik, Michl & Audretsch, 2012).

The most well-known definitions according to Li (2013) are the ones offered by Schumpeter in 1934 and Frank Knight in 1921. Schumpeter indicated that the concept of entrepreneurship is akin to ‘innovation'. He argues that an entrepreneur is basically an innovator who performs one or all of the following tasks. These tasks include the introduction of a new good or a new quality; the creation of a new method of production; the opening of a new market; the capture of a new source of supply; or the creation of a new organisation or industry (Li, 2013).

Knight (2012) also emphasised the risk-bearing aspect of entrepreneurship. The researcher noted that entrepreneurship is about risk taking and the ability of the entrepreneur to assume uncertainty and manage it successfully. Entrepreneurship means the continuous process of combining resources to produce new goods and services (Venter, Urban & Rwigema, 2008; Ozdemir, Moran, Zhong & Bliemel, 2016).

Simply put, entrepreneurship is the process of creating something new or different that has intrinsic value. This creation may include developing new products, identifying new markets, or developing new organisational entities.

Additional considerations in all entrepreneurial activities include identifying and managing risk, assessing entrepreneurial potential, identifying new markets, or pursuing opportunity and barriers towards entrepreneurial activity (Trivedi, 2013; Khavul, Chavez, & Bruton, 2013; Davidson, 2015; Alvarez, Young & Woolley, 2015). Most entrepreneurial activities happen in the SMMEs level and the individual plays the leading role in creating new ventures by taking the right risks to achieve the intended goal (Nieman & Nieuwenhuizen, 2009; Sarooghi, Libaers, Burkemper & Andrew, 2015).

The theory of planned behaviour (TPB) conceptualises that, entrepreneurship is an intentional behaviour of an individual whereby such an individual forms an intention to start a venture and create value out of it (Kautonen, Gelderen, & Fink, 2015). Kautonen, Gelderen and Fink (2015) have however indicated that intention is the main predictor of an individual’s effort in pursuing an entrepreneurial goal of venture creation.

The availability of entrepreneurial capital is a prerequisite for every entrepreneurial success. Blumberg and Pfann (2016:335) has identified three types of capital namely financial, social, and human capital as the building blocks of the venture creation process.

Financial capital refers to the availability of monetary wealth, especially for the start-up process. Social capital refers to the various networks and goodwill that the entrepreneur has built up over the years. Human capital refers to both cognitive and non-cognitive skills that the entrepreneur has acquired through education and experience, which contributes to an entrepreneur's success (O'Connor, 2013; Bae, Qian, Miao & Fiet, 2014; Maresch, Harms, Kailer & Wimmer-Wurm, 2016).

As part of the resource gathering process, the entrepreneur needs to gather resources through a host of stakeholders in the venture creation process. However, these stakeholders normally face a high uncertainty of the viability of new ventures and may be reluctant to invest their time, money, advice, and other critical resources (Lanivich, 2015). Nagy, Pollack, Rutherford and Lohrke, (2012:941) has therefore intimated that entrepreneurs with high human capital can mobilise a lot of resources for the venture creation process through their stakeholders. This is because human capital can easily be converted into a financial capital.

de Jong, Parker, Wennekers, & Wu, (2015:981) have indicated that the hallmark of entrepreneurship is innovativeness. The researchers explain innovativeness to mean the predisposition to engage in creativity as to the venture creation process in terms of products, processes, and procedures. York and Venkataraman (2010:449) have explained innovativeness to mean, the entrepreneur’s ability to reform the pattern of production by exploiting technology whiles improving current products, procedures as well as processes. Hyytinen, Pajarinen and Rouvinen (2015) therefore concluded that innovativeness influences the survival of firms especially start-up ones by creating survival enhancing attributes such as market power,cost efficiency and other capabilities.

According to Pines, Dvir and Sadeh (2012:95), innovation, risk-taking and proactive behaviour are key attributes of every entrepreneurial endeavour without which entrepreneurial drive will be stifled. In this regard, Hisrich, Peters and Shepherd, (2005) identified two major categories of entrepreneurial activity namely venture entrepreneurship and innovation entrepreneurship.

Venture entrepreneurship is any attempt towards the creation of a new venture or business such as self-employment, a new business, or expansion of an existing business. Innovation entrepreneurship, on the other hand, is related to introducing modern and different methods of business operation into an existing business (Baltar & Coulon, 2014).

According to (Jennings, Jennings & Sharifian, 2016), entrepreneurship is a form of the emancipation of an individual from the norm and status quo of society. The emancipation perspective of entrepreneurship sees the concept as a change–creating effort whereby individuals and groups seek and endeavour to break free from their current constraints within their economic, social, technological, cultural, and institutional environments.

In the delivery of microfinance services to the poor,microfinance institutions are supposed to be entrepreneurial in the delivery of microfinance services to the poor. MFIs are to be concerned more with the acquisition of entrepreneurial skills necessary for venture management by their clients through entrepreneurial education than just the outreach of their services to the poor (Millán, Congregado, Román, Praag & Stel, 2014).

3.2.1 DEFINING THE ENTREPRENEUR

Individuals called entrepreneurs drive all entrepreneurial projects or ventures (Mueller, Volery, & Siemens, 2012). It is ultimately the entrepreneur who identifies and shapes a business opportunity and sustains the motivation to persist until the job is done. The entrepreneur is, therefore, central to all entrepreneurial endeavours whether in start-up venture creation or management or in any innovative project.

Entrepreneurial intentions are essential in any venture creation and management process. Entrepreneurship is, therefore, a deliberate and a planned behaviour and effort rather than an accidental one. The creation of any venture involves a careful planning and thinking by an individual. Entrepreneurial intentions of the individual are therefore paramount to any successful venture creation process (Schlaegel & Koenig, 2014; Gelderen, Kautonen & Fink, 2015).

Dzansi (2004) states that the entrepreneur is an individual who undertakes to organise resources, manages, and takes risks in a business venture. This individual according to Guerra and Patuelli (2016) and Osiri (2013) is an innovator who recognises an opportunity, takes an advantage of it, converts them into marketable ideas, adds value to them through time, effort, and money and expects a reward such as better prospects of income from these efforts.

Entrepreneurs attempt to invest both human, financial and other resources in their ventures taking the path of risk and uncertainty with an asymmetry in the quality of information on the potential income from their ventures (Berkhout, Hartog & Praag, 2016; Shahidi & Smagulova, 2008:34). This is because predictions as to potential earnings of entrepreneurs are poorly observable and often non-existent (Berkhoutet al., 2016). Jennings, Greenwood, Michael and Roy (2013) vividly puts it that, the entrepreneur is the individual who identifies opportunities and engages in entrepreneurial operations such as production, innovation, start-ups, and corporate venture spin-outs that have the capacity to create future goods and services.

According to Venter, Urban and Rwigema (2008), an entrepreneur is not necessarily the one who brings about new inventions but also the one who identifies how to commercialise these new inventions as well. These researchers support the assertion that, innovation is central to the entrepreneurial process and the entrepreneur needs to be creative, innovative, and habitually building something of value with an identified and a seized opportunity. However, Berkhoutet et al. (2016) stated that entrepreneurs have a higher opportunity cost in pursuing their ventures than employees who are guaranteed a salary.

3.2.2 DETERMINANTS OF ENTREPRENEURIAL BEHAVIOUR

In determining who becomes a successful entrepreneur, researchers over the years have attempted to find answers. Personality traits theory propounded mainly by Knight (1921) is said to be the main determinant of entrepreneurial behaviour. However, Luzzi and Amir Sasson (2016) has noted that personality traits and abilities alone may not be enough in propelling entrepreneurial behaviour but in addition to traits, peculiar motivations and preferences might help explain the entrepreneurial behaviour of individuals. This explains the reason some individuals persist more in business than others.

de Jong, Parker, Wennekers and Wu (2015) has also indicated that there are two main factors that influence the entrepreneurial behaviour of entrepreneurs. Both personal characteristics such as age, education, self-efficacy, and environmental factors such as research and development, market growth and industry concentration are essential factors in determining entrepreneurial behaviour. In supporting the above argument, DeNisi (2015) noted that it is a combination of various personality traits that is responsible for entrepreneurial behaviour rather than a single trait.

The researcher indicated mainly Core Self-evaluation (CSE), which is an integrative trait comprising of high self-esteem, internal locus of control, high generalised self-efficacy, and high emotional stability as responsible for entrepreneurial behaviours in individuals. Altinay and Wang (2011) outlined certain characteristics of the entrepreneur such as experience, cultural values, and educational background, which are very paramount for the success of any entrepreneurial venture.

Klotz and Neubaum (2016) and Espíritu-Olmos and Miguel (2015) also indicated that personal traits such as energy, passion, the need for achievement, overconfidence, aggressiveness as well as obsessiveness can either influence an entrepreneur positively or negatively on the entrepreneurial journey. Miller (2015) stated that the entrepreneur could have a downward personality such as aggressiveness, narcissism, ruthlessness and irresponsibility which can have repercussions on society.

Social capital has also been indicated to be one of the driving factors of all successful entrepreneurs. Lofstrom, Bates and Parker (2014) stated that entrepreneurs usually have stronger human-social capital credentials than non-entrepreneurs. Social capital referred to usually as networking is an essential ingredient in all entrepreneurial efforts.

According to Pollack, Coy, Green and Davis (2015) forging new social ties and maintaining old ones leads to the acquisition of relevant and timely information and other resources, helps in the firm start-up and growth process as well as its management. This, therefore, implies that entrepreneurs with greater networking skills will achieve greater success in their entrepreneurial journey than those who lack suck skills. (DeNisi, 2015).

From the human capital theory point of view, the entrepreneur needs to have a skill set that is required for an entrepreneurial success in the identification of new opportunities as well as exploiting them for a commercial benefit. Astebro and Yong (2016) and Lofstrom, Bates and Parker (2014) have all noted that investments in human capital such as in the acquisition of a variety of business skills and education promote an entrepreneurial success in both venture creation and management.

This observation is in consonance with Lazear's (2005) jack-of-all-trades theory of entrepreneurship, which suggests that individuals with balanced skills are more likely to become entrepreneurs than those without varied skills (Chen & Thompson, 2016:289).

Persistence has also been highlighted in the literature as a key to any entrepreneurial endeavour. Persistence involves the continuation of effortful action despite failures, impediments, or threats, either real or imagined (Cardon & Kirk, 2015). In finding out why some entrepreneurs persist in their pursuit of venture creation whiles others quit, (Cardon & Kirk, 2015) has found out that entrepreneurial passion and self-efficacy is responsible for driving persistence in all venture creation activities.

Even though it has been stated that the individual is central to the entrepreneurial process (Altinay & Wang, 2011; Mueller, Volery & Siemens, 2012; Schlaegel & Koenig, 2014), the benefit of entrepreneurial activity does not only accrue to the entrepreneur but also to the community, through generation of jobs and other economic development activities (Miller, 2015; Lerner, 2010). In the delivery of microfinance to the poor, the microfinance client is supposed to be helped through training and education to possess some or all of the above skills of an entrepreneur to be successful in managing their small businesses in order to reduce their poverty. This is to say microfinance without an entrepreneurial approach is likely not to have the intended impact on poverty reduction.

3.2.3 ADOPTED DEFINITION OF ENTREPRENEURSHIP

From the various definitions of entrepreneurship above, it has been made clear that, entrepreneurship is a diverse and multidimensional process due to the different functions or activities entrepreneurs engage in. However, in all the various definitions, one thing that remains significantly important is the fact that, entrepreneurship is about idea generation and putting this idea into fruition to create value in satisfying a specific *need*. In this attempt to satisfy a need, the entrepreneur can reduce poverty affecting himself as well as the society to whom the service or product is rendered. In this view, an entrepreneur is an individual who can create value by identifying and exploiting business opportunities for the achievement of a goal.

Therefore, entrepreneurship is an active process of venture creation process whereby the entrepreneurs seizes an opportunity and organise resources to create jobs and make an impact on a national economy which eventually makes an impact on poverty reduction efforts.

3.2.4 ENTREPRENEURIAL ORIENTATION OF MSMES

Extant research in the organisational literature has pointed out that, entrepreneurial Orientations (EO) of firms has become one of the most important established phenomena in entrepreneurship. SMMEs especially young ones achieve important strategic benefits through adopting an entrepreneurial orientation and that all firms are encouraged to have an entrepreneurial orientation in their approach to delivering their services and products. (Wales, Monsen & McKelvie, 2011).

According to Engelen, Neumann and Schwens (2015), the entrepreneurial orientation of SMMEs involves the presence of *innovativeness*, *proactiveness*, and *risk-taking* in firms. Entrepreneurial orientation according to Kreiser (2011:1025), plays an important role in enhancing levels of acquisitive and experimental learning within firms and it also helps them to develop strong networks for resource building purposes.

As such, entrepreneurial orientation represents a continuous variable (or set of variables) upon which all organisations can be graded in a continuum where institutions whether private or public, young, or old, small, or big can be assessed from being a conservative orientation to entrepreneurial activity (Covin & Wales, 2012).

Saeed, Yousafzai and Engelen (2014) have also noted that entrepreneurial orientation of SMMEs means both autonomy and aggressiveness. While the researchers explain aggressiveness to mean a firm’s strong dedication to outperform its industry rivals and competitors, they also explain autonomy to mean a solely independent action on the part of the firm to generate and pursue a business concept or vision and following it to the letter.

MFIs need to intensify their entrepreneurial orientations in the delivery of their services to the poor. This can be seen in the delivery of innovative services and financial products that can have a direct impact on poverty reduction without necessarily compromising the process.

3.2.5 CORPORATE ENTREPRENEURSHIP

Apart from the individual entrepreneur as identified by Schumpeter, Knight (2001) also identified what he called corporate entrepreneurship. To Knight, corporate entrepreneurship involves three things namely; *intrapreneurship dispersed entrepreneurship* and *corporate venturing.* The practice of innovation and entrepreneurial qualities within an existing organisation is known as intrapreneurship.

Dispersed entrepreneurship is a practice of building structures and culture across the entire organisation to stimulate innovation and create a sense of ownership amongst the employees. This eventually helps organisational survival and prosperity. Corporate venturing is the practice of creating innovativeness within the organisation by developing close relationships with other small ventures in the same or related industry (Yu, 2010). Corporate venturing according to Yu (2010) helps in rejuvenating firms, enhances knowledge construction as well as improving enterprise innovation.

Biniari (2012) has indicated that corporate entrepreneurship is a socially embedded behaviour whereby corporate entrepreneurs in organisations are expected to interact with other members of the organisation who may or may not share the same entrepreneurial goal to set the entrepreneurial tone, direction and thinking in the organisation.

3.2.6 THE ENTREPRENEURIAL PROCESS

It is worthy to mention that, entrepreneurship is a transformative process, which is discontinuous and iterative but not accidental. The entrepreneurial process involves all activities and functions that are associated with perceiving and creating opportunities, mobilising resources and establishing organisations to pursue them (Moroz & Hindle, 2012). Sarasvathy and Venkataraman (2011) compared the process to a scientific process and concluded that the entrepreneurial process of opportunity identification is subjective, transformative, involves action, interaction, and a creation. Selden and Fletcher (2015) referred to it as a complexity science, which is emergent, hierarchical, and self-organised encompassing a range of processes focusing on various aspects of the emergence.

The entrepreneur, therefore, follows through with patience, diligence, courage, and tenacity to arrive at the desired goal and value creation, which brings personal satisfaction. Strokes and Wilson (2006:31) illustrated the entrepreneurial process in the figure below.

Figure. 3.2 The Entrepreneurial Process

Source: Strokes & Wilson (2006:31)

From the Figure 3.2 above, opportunity identification is the first step of the process of entrepreneurship and this emerges from the entrepreneur as seen above. At this point, it is important to mention that, it is imperative for the entrepreneur to be able to identify an opportunity in the market, seize it and exploit it for a reward since entrepreneurship is opportunity based (Davidson, 2015; Guerra & Patuelli, 2016).

After identifying an opportunity, the individual must go through a process of decision-making and resource mobilisation either as an individual or in a team to pursue the intended goal. (Urban & Rwigema, 2008; Nagy, Pollack, Rutherford & Lohrke, 2012; Venter & DeNisi, 2015; Ozdemir, Moran, Zhong & Bliemel, 2016). Wise use of those resources is paramount to the success of the venture. The values realised normally does not accrue to the entrepreneur alone but also to the larger community where the entrepreneur operates. To conclude this section, it is noteworthy that, entrepreneurship is opportunity driven where an individual seizes an opportunity and takes full advantage of it by investing his resources, time and having the moral courage to engage in the venture creation process despite the risk of failure.

3.3 TYPIFYING ENTREPRENEURSHIP

Dzansi (2004), has stated that there is the need to classify entrepreneurship for the purposes of policy formulation and implementation to elicit the appropriate support in the promotion of the concept. Dzansi (2004) again pointed out that appropriate segmentation will also make the necessary resources available to a large number of entrepreneurs across all sectors without neglecting any of them.

Entrepreneurship literature has attempted to classify entrepreneurship as to whether it is driven by a need of the individual or by the entrepreneur identifying or creating an opportunity to satisfy a market need. The Global Entrepreneurship Monitor (GEM) has introduced two different types of entrepreneurship in 2001 (Block & Marcus, 2010).

Entrepreneurship is either driven by opportunity or necessity, hence opportunity entrepreneurship and necessity entrepreneurship. The difference between the two depends on the motivation of the entrepreneur in creating the venture (Block & Sandner, 2009).

For the purposes of this research, these two classifications will be discussed since this seems to be one of the most practical ways of classifying the concept. Also, since microfinance revolves around the needs of the poor, this classification will be adopted even though there are many other classifications in the literature. These two types of entrepreneurship and how each is linked to poverty reduction are discussed in the following sections.

3.3.1 NECESSITY ENTREPRENEURSHIP

Knight in 1921 has stated that when it comes to entrepreneurship; individuals make decisions among three main factors namely unemployment, self-employment, and employment and this is in consonance with the theory of income choice which explains how individuals make decision when it comes to employment and income generation (Thurik, Carree, Stel & Audretsch, 2008).

Necessity entrepreneurship occurs when people create small businesses because they cannot find formal employment or do not have formal qualifications to enter formal employment or such individuals become involuntarily unemployed (Acs & Szerb, 2007; Minniti & Lévesque, 2008; Deli, 2011).

This is normally done in desperation in order to earn a living. This type of entrepreneurship is very common in developing countries where there is a high rate of unemployment coupled with the lack of formal and employable skills. This is what Thurik, Carree, Stel and Audretsch (2008) referred to as the ‘unemployment push' or ‘the refugee effect' whereby individuals become entrepreneurs as a response to being unemployed or when they perceive dismal employment prospects in the future.

This proposition has also been well articulated by Gohmann and Fernandez (2014) who proposed that there is a strong relationship between unemployment and proprietorship. However, the researchers indicated that there could also be an opposite relationship between entrepreneurship and unemployment whereby entrepreneurship is seen eventually to be reducing unemployment rather than the former propelling the other.

Saridakis, Marlow and Storey (2014) indicated that there is a strong correlation between macroeconomic indicators of poor countries and self-employment rates particularly of females since women, especially in poor countries, lack the necessary skills to be formally employed. Gupta, Goktan and Gunay (2014) however noted that women have more creative power than men in identifying and evaluating a business opportunity when no stereotypical information is considered.

Necessity entrepreneurship is not likely to provide the expected impact on national development and contribution to a country's Gross Domestic Product (GDP) apart from the jobs created. Necessity entrepreneurs need not necessarily identify a business opportunity before establishing a new venture. These types of entrepreneurs may be forced out of circumstances beyond their control in creating a venture (Block & Sandner, 2009).

From the above discussion on necessity entrepreneurship, it can be stated that when people become involuntarily unemployed due to their inability to find any formal employment or they do not have formal qualifications to make them employable, they become vulnerable to poverty and at the end, are affected by poverty. In this situation, the people become desperate and are compelled to start a venture or activity that can earn them a living to reduce their poverty levels. Many microfinance clients find themselves in this category of entrepreneurs since most of them are not formally educated and don't have the necessary skills to be employed formally. MFIs, therefore, are supposed to provide the necessary skills that the poor need to function effectively.

3.3.2 OPPORTUNITY ENTREPRENEURSHIP

Opportunity Entrepreneurship is the most preferred and desired type of entrepreneurship and it is this type of entrepreneurship which has the capacity to contribute to the GDP of a country as well as creating a sustainable employment. These group of individuals who engage in opportunity entrepreneurship are neither driven by need nor lack of formal skills but rather, they identify an opportunity in the marketplace and try to create value out of that opportunity by taking financial, social, and psychological risks in exploring the opportunity identified having in mind an expected reward (Williams & Williams, 2014).

Rae (2006:3) defines an opportunity as: “the potential for change, improvement or advantage arising from our action in the circumstances”. Rae (2006) explains that entrepreneurial opportunities are those situations in which new goods, services, raw materials and organising methods can be introduced and sold later at a higher cost than the cost of production.

The opportunity may be a situation, which already exists, or one, which can be created by the entrepreneur, which would not otherwise have occurred (Oyson & Whittaker, 2010). An opportunity may be one which we can be recognised now, or one, which can arise in the future. This type of entrepreneurship according to Dzansi (2004) is the most preferred and is more likely to contribute positively to national economic development than the necessity entrepreneurship. Figure 3.3 below illustrates opportunity-centred entrepreneurship as developed by Rae (2006:6).

Figure. 3.3 Opportunity-Centered Entrepreneurship

Source: (Rae, 2006:6)

From Figure 3.3 above, starting from the centre is opportunity-centred entrepreneurship bordered by four main factors namely personal enterprise, creating, and exploring the opportunity, planning to realise opportunity, and acting on opportunity. With a personal enterprise as seen in figure 3.3, above, the entrepreneur considers what is desired, thus personal goals, skills and strengths, confidence, self-efficacy, values, and motivation that are available to accomplish those desired needs.

Also, in Figure 3.3 above, Rae (2006) explains that the entrepreneur needs to create and explore ideas by seeing the desired needs as opportunities and taking appropriate initiatives. For entrepreneurship to take place, an opportunity needs to be both discovered or created and exploited. Entrepreneurship is all about opportunity identification, evaluation of opportunity and capturing it (Block & Sandner, 2009).

The next process of the opportunity centred entrepreneurship is planning as seen in figure 3.3. At this point, the entrepreneur plans how to achieve the goals, consideration is made on what is the success factors, how to succeed and with what resources.

The last process of the opportunity centred entrepreneurship is acting on the opportunity as illustrated in Figure 3.3. Rae (2006) explains that in this process, the entrepreneur creates and uses contacts for networking and communicates effectively through self-marketing. Through these, the entrepreneur is able to gain experience from the networking so as to succeed.

Shane & Nicolaou (2015) indicated that entrepreneurship is a creative work and the focus of an entrepreneur should be on opportunity development rather than opportunity recognition. Creativity is, therefore, critical to the entrepreneurial opportunity development process but not just a mere identification of existing opportunities (Gielnik, Frese, Graf & Kampschulte, 2012).

This process of opportunity development is iterative and cyclical and the entrepreneur is likely to conduct several evaluations until a final decision is made. This can be explained to mean that entrepreneurial opportunities are made but not found as explained by many researchers. However, Vaghely & Julien (2010) noted also that opportunities can be recognised as well as constructed or combined at the same time.

In developing such entrepreneurial opportunities, Vaghely and Julien (2010) have noted that entrepreneurial alertness; information asymmetry and prior knowledge; social networks; personality traits, optimism, self-efficacy, creativity; and the type of opportunity itself are critical in the successful development and evaluation process. However, Vaghely and Julien (2010) has placed an emphasis on the type and quality of the information received and how it is processed. This is because, entrepreneurs need to process information such as market information, information about resources, competitors as well as technology in an interpretative way to arrive at a meaningful decision.

The alertness factor has also been highlighted in the literature by Tang, Michele and Lowell (2012). The researchers have indicated that allertness is one critical factor that is essential to identifying and developing all entrepreneurial opportunities and that alertness consist of three main elements namely scanning for information, connecting previous information and evaluating the profitability of any business opportunity identified.

In discussing opportunity identification in institutions, Wright and Zammuto (2013) intimated that institutional entrepreneurial opportunity identification is dependent on several factors which include the availability of organisational resources, interests, formal and informal authority and power, legitimacy,leadership and social networks as well as knowledge and professional practice where available.

In relating opportunity entrepreneurship to poverty reduction, one can argue that the presence of poverty in a country is an opportunity for the entrepreneur to identify and create a value out of that opportunity. This is done by taking financial, social, and psychological risks in exploring the opportunity identified having in mind an expected reward. In doing so, the entrepreneur can address and reduce the problem of poverty affecting himself and other people in the country concerned.

This according to Thurik, Carree, Stel and Audretsch (2008) is done mainly by creating new ventures that contribute to both employment generation as well as to the overall economy of a country through the creation of goods and services. Microfinance institutions are therefore supposed to support their clients in identifying and taking advantage of available opportunities.

3.3.3 SOCIAL ENTREPRENEURSHIP

Poverty is a multi-dimensional concept and as such needs a multi-faceted approach in dealing with it. The multi-dimensional nature of poverty makes it essential that, in promoting entrepreneurship through microfinance for poverty reduction purposes, social entrepreneurship needs to be discussed as part of this research.

According to Korsgaard (2011), social entrepreneurship is an important activity in the society of today. Social entrepreneurship occurs where an individual actively creates favourable external circumstances rather than responding to opportunities that are present in the environment. Supporting this view, Zahra et al. (2008) posit that demographic shift, liberalisation of global economy as well as its attendant market, state, and institutional failures, in addition to advancement in technology provides the catalysts for ventures of social mission. Korsgaard, (2011) therefore argues that social entrepreneurship comes into play with solving social ills and social entrepreneurs can see beyond the confined traditional welfare situation of the people.

In a meta-analysis of social entrepreneurship, (Dacin, Dacin & Matear, 2010) came up with thirty-seven (37) different definitions of social entrepreneurship. In all the definitions, what makes the dominant factor is the fact that social entrepreneurs create innovative social values which eventually has an impact on the quality of life of people. Accordingly, all social entrepreneurs are concerned about the social mission rather than a profit-seeking mission, which is noted as paramount and a central attribute in all social ventures.

The social mission is embedded in business mission and this makes entrepreneurs achieve business mission while fulfilling their social mission. According to Makhlouf (2011), social entrepreneurs have an in-depth understanding of their social mission and how to ensure improvement in social needs.

From the above explanation, social entrepreneurship can be regarded as entrepreneurial activities with a social purpose. Therefore, social entrepreneurship is the use of innovative approaches to addressing societal problems. In this regard, social entrepreneurship is considered as one of the strategies in poverty alleviation. The poor may not need only economic emancipation but also social dimensions of their lives needs to be looked at.

3.4 THEORIES OF ENTREPRENEURSHIP

Theory development is central to the advancement and understanding of entrepreneurship as a phenomenon. Many theories that have been used over the years for nearly three decades have been borrowed from other disciplines notably sociology, economics and psychology and are adapted to the study of entrepreneurship (Zahra, 2007).

Entrepreneurship theory development according to Dzansi (2004) and Grebel, Pyka and Hanusch (2011) is essential even though it is a difficult task due to the interdisciplinary and divergent nature of the concept and the various backgrounds of various writers on the concept. Grebel, Pyka and Hanusch (2011) even pointed out categorically that a consistent and universal theory that is adequate and underpins entrepreneurial research is missing. Zahra (2007) observed that theory development in the field of entrepreneurship will drive the evolution of scholarship in the field as an academic discipline as well as shape the academic conversation by delineating the field's boundaries, examining the core as well as the preferred research methods.

While admitting the divergent theory base of entrepreneurship, both Hodgetts and Kuratko (2001) and (Dzansi, 2004) agree that it is still possible to classify these theories for the sake of clarity. A theory of entrepreneurship is defined as a verifiable, coherent, and logical formulation and explanation of relationships or principles that are likely to forecast entrepreneurial activity and opportunities or better still can lead to the formation of new ventures. An entrepreneurial theory can also provide some normative guidance to the entrepreneur in the pursuit of his profit and value addition motive (Kuratko & Hodgetts, 2007).

Even though many approaches to the study of the concept are available, Kuratko and Hodgetts (2007:36) have identified two dominant ones namely the schools of thought approach and the process approach. For the purposes of this study, these approaches were explored and related to the entrepreneurial activities of the poor in their attempt to reduce their poverty.

3.4.1 THE SCHOOLS OF THOUGHT APPROACH

Kuratko and Hodgetts (2007:37) used the schools of thought approach to explain entrepreneurial behaviour development and the venture creation process. The conceptual framework of the schools of thought approach is explained in the figure below.

Figure 3.4 The Theoretical Schools of Thought Approach.
Source :(Kuratko & Hodgetts, 2007:37)

From Figure 3.4 above, the schools of thought approach look at entrepreneurship from two views; *macro* and *micro* views. The macro view of entrepreneurial development has proposed a wide range of factors that are responsible for the success or failure of entrepreneurial ventures. These factors according to Aardt et al. (2011:6) are external to the entrepreneur and are not within his control. They are categorised into environmental, financial and displacement factors.

The environmental factors include all external factors that affect the lifestyle of the entrepreneur. The financial factors include the availability of capital in the environment and the ability of the entrepreneur to compete and have access to it. The displacement factors include social marginalisation in political, cultural, or economic forms.

In Figure 3.4, the micro view of entrepreneurship sees the concept as dependent on the individuals' ability to identify opportunities, mobilise the necessary resources, be innovative and create value for themselves and society. The micro view focuses on three main factors namely *trait, opportunity identification* and *strategic formulation* and execution of ideas.

3.4.2 THE PROCESS APPROACH

One other way to examine and interpret the development of entrepreneurship is to use the process approach. The entrepreneurial process according to (Hisrich, Peters & Shepherd, 2005) involves all the functions, activities, and actions that are associated with the identification of opportunities, seizing it and the creation of organisations to pursue them. Three main process approaches are widely known (Aardt et al., 2011). These include the integrative approach, the entrepreneurial assessment approach, and the multidimensional approach.

Even though analysing all the process approaches identified above is essential, only the integrated approach is examined as a means of explaining and predicting entrepreneurial behaviour. The integrative approach is presented in the figure below.

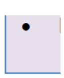


Fig. 3.5 The integrative Approach to Entrepreneurial Development.

Source: (Kuratko & Hodgetts, 2007:43)

The integrative approach is built around the concepts of ‘input' and ‘output' into the entrepreneurial process. There are five key inputs into the process namely the environmental opportunities available, the individual entrepreneur and his abilities to identify and use those opportunities, the type of organisational structure be it a sole proprietorship, franchise, or limited liability, having and implementing a unique business concept as well as having the necessary resources available. All these inputs go through the entrepreneurial process where there is a risk- taking, proactivity, as well as innovation. Depending on the entrepreneurial intensity, various outputs may include value creation, new products, profits, and the creation of employment among others.

3.5 ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT

3.5.1 THE ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT AND POVERTY REDUCTION

There is a strong relationship among entrepreneurial activity,economic development and poverty reduction (Ozgen & Minsky, 2007:53; Teerakul, Villano, Wood & Mounter, 2012:6; Schramm, 2013:105)**.** Micro enterprises are said to account for 30%-50% of total urban employment (Pearlman, 2007). Agyapong (2010) asserted that SMMEs contribute to over 55 percent of GDP and over 65 percent of total employment in high-income countries.

SMMEs and informal enterprises are also noted to contribute over 60 percent to GDP and generate over 70 per cent of total employment in low-income countries. In middle-income countries, they are also noted to contribute over 95 percent of total employment and about 70 percent of GDP. Agyapong (2010) has therefore established a link between SMMEs and their role in job creation,innovation, entrepreneurial skill development and eventual impact on poverty reduction.

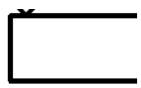


Fig 3.6 Relationship between Micro Small Medium Enterprises and Poverty Reduction.
Source: (Agyapong, 2010:205).

Many studies have also pointed to the positive relationship between entrepreneurial activity, economic growth, prosperity, and wealth creation (Mair & Marti, 2009;Fulford, 2013). Through entrepreneurship, Individuals and groups can remove both economic and social constraints through the creation of wealth and other possibilities for themselves and others within society (Tobias, Mair, & Celestina, 2013).

Entrepreneurship has become increasingly important to both developed and developing countries as a source of economic growth and employment creation. Currently, public policy in many countries has highlighted the need for promoting entrepreneurship as an antidote to economic development and wealth creation (Thurik, Carree, Stel & Audretsch, 2008).

The role of entrepreneurship in economic development in any nation cannot be overemphasised. High measured levels of entrepreneurship translate directly into high levels of economic growth Entrepreneurial firms generate relatively much employment, productivity, economic growth, produce and commercialise high-quality innovations (Balkienė & Jagminas, 2010; Chowdhury, 2007). When

Schumpeter wrote on *The Theory of Economic Development in 1934,* he emphasised what he called the ‘process of creative destruction' whereby the entrepreneur serves as the primary cause of economic development (Hagemann, 2013:5). Schumpeter (1934) described how the innovating entrepreneur challenges incumbent firms by introducing new inventions that make current technologies and products obsolete and redundant.

Naude (2010) has stated that the entrepreneur is the single important player in the modern economy and is very important in reducing poverty and thereby creating wealth. Mirjam and Versloot (2007) outlined four main areas of the contribution of entrepreneurship to economic growth namely employment creation, innovation, productivity and growth, and the increment of the utility levels of the individual. Opportunity and necessity entrepreneurship (Zoltan, 2006) is one of the surest ways of job creation and job creation, in turn, helps the development of every economy.

Entrepreneurs by their nature and characteristics think and create new businesses, and new businesses, in turn, create jobs, intensify competition, and may even increase productivity through technological change. Entrepreneurial firms contribute to both the quantity and quality of employment in an economy. With the current global unemployment rates, the role of entrepreneurs is considered as key in creating jobs through the creation of new organisations of value.

However, Gohmann and Fernandez (2014) have debunked the notion that entrepreneurship creates employment. The researchers argue that entrepreneurship can influence unemployment eventually in what they referred to as ‘creative destruction’. The argument is that, as new firms displace older ones through new innovations and technological changes, unemployment may increase for certain categories of individuals with certain skills. Nevertheless, micro enterprises are increasingly recognised as the major contributor to income and employment generation and by implication a contribution to poverty reduction especially in the developing world (Dalglish, 2008).

Entrepreneurial activity is also known to reduce income inequality that exists between men and women especially in the developing economies (Upadhye, 2012). When women engage in an entrepreneurial venture, it results into empowerment because their household incomes improve and the various vulnerabilities that are associated with women are reduced to the barest minimum. Women are therefore empowered through increased incomes to challenge the existing norms and culture and to effectively improve upon their personality status in the family as well as in the society (Klyver, Nielsen & Evald, 2013).

The impact of entrepreneurial activity on job creation and poverty reduction in the case of Ghana are similar to the above discussion. The situation in Ghana is that data is not readily available to easily determine the contribution of SMMEs to employment and GDP. However, information available from the Registrar General's Department indicates that 90% of firms registered are SMMEs (Mensah, 2004). This implies that the Ghanaian economy has a huge contribution from SMMEs in terms of its growth and employment generation.

3.5.2 THE ROLE OF MICROFINANCE IN ENTREPRENEURSHIP DEVELOPMENT

Microfinance Institutions (MFIS) are established to provide financial services to the poor especially in the provision of credit and other financial services such as savings, micro insurance as well money transfer services (de Haan & Lakwob, 2010; Hermes & Lensink, 2011). Microfinance-enabled entrepreneurship is one of the ways in which poverty can be reduced on a sustainable basis. In a meta-analysis, of a total of 545 quantitative empirical findings from 90 studies conducted to date, it has been revealed that microfinance has had a positive impact on key development outcomes especially in propelling entrepreneurs in starting their own businesses (Chliova, Brinckmann & Rosenbusch, 2015; Cull, Demirgüç-Kunt & Morduch, 2016).

Apart from the provision of microfinance loans to entrepreneurs to implement innovative ideas, MFIs also provide savings facilities, business and life insurance, payment and transfer systems and many social intermediation programmes such as training, management development and financial literacy to micro enterprises (Ejaz & Ramzan, 2012).

Microfinance institutions also provide enterprise formation and transformation services. In enterprise formation, MFIs provide technical support to groups or individuals who are starting up a new business in the form of business development and nurturing of business ideas and skills. In the case of enterprise, transformation, MFIs arrange training and workshops for their borrowers to develop various skills in their business categories (Ejaz & Ramzan, 2012:308).

Messomo Elle (2012:124) emphasised five identification aspects of all entrepreneurial activities. These include *innovation in products or services, innovation in processes, innovation in markets, innovation in economic organisations and innovation in sources of inputs.* Innovation means the introduction of new ways in bringing in new combinations of means of production. Fayolle and Verstraete (2005) also emphasised four patterns of identifying the entrepreneurial action. These include *business opportunity identification, organisation creation, value creation, and innovation*.

The operation of microfinance, therefore, seems to reinforce the above classifications and identifications of entrepreneurial behaviour. MFIs emphasise opportunity identification and wise use of loans, innovation, value creation and organisation creation. MFIs assist by providing many types of services to entrepreneurs. The services could be financial such as microcredit, micro insurance, money transfer, savings, and non-financial services such as training, technical assistance, counselling, business education, and health education (Messomo Elle, 2012:127). The above microfinance services are directed to entrepreneurs who want either to create entrepreneurial ventures or expand and develop their micro-businesses.

Microfinance institutions in their attempt to provide financial services to entrepreneurs, assist two types of entrepreneurs namely new venture creation (start-ups funding) and existing entrepreneurs (working capital funding) (Messomo Elle, 2012:127). Microfinance Institutions assist potential entrepreneurs by providing financing and training to enable them to start a new venture. The assistance provided to existing entrepreneurs has the purpose of financing the working capital needs of the microenterprise, the acquisition of the needed fixed assets and providing savings facilities to secure the entrepreneur's funds (Carsamer, 2012).

3.6 CHAPTER SUMMARY

This chapter has critically looked at the concept of entrepreneurship and its role in poverty reduction. However, this poverty reduction objective cannot be achieved without adequate, accessible, and low-cost financial capital that is extended to the poor to serve as an input into their small business. Undoubtedly, small businesses have the capacity to reduce poverty especially in Ghana where endemic poverty still abounds. Since global poverty remains a challenge that threatens human survival, the role of microfinance institutions in the drive towards poverty reduction cannot be over emphasised. Microfinance enabled entrepreneurship to have the capacity to make an impact on poverty.

However, in supporting the poor with microfinance in the venture creation process, managing the risk associated with the poor becomes a challenge to microfinance institutions and this needs to be addressed so that the current access gap to credit is not further widened. This is because the risk associated with the poor and their vulnerability makes microfinance institutions to upscale their services to the non-poor who they believe have a better repayment capacity and the required collateral to support their loans. Using the appropriate risk management methods in extending credit to the poor is as essential as the credit delivery process itself. The next chapter, therefore, discusses the management of microfinance risk.

CHAPTER 4: MICROFINANCE CREDIT RISK MANAGEMENT

4.1 OUTLINE OF THE CHAPTER

Figure 4.1 below illustrates the sequence of this chapter. It seeks to outline coherence of the various topics and related sub-topics to the subject under consideration in this chapter.

Figure 4.1: Outline of Chapter 4

4.2 INTRODUCTION

In the discussion in Chapter 3, it was made clear that microfinance is an important element in promoting entrepreneurship among the entrepreneurial poor. Through successful entrepreneurship, the poor are expected to become financially sound thereby extricating them from poverty or vulnerability to it. In this way, microfinance is a sustainable means to poverty eradication amongst the entrepreneurial poor. However, there is also the risk of the poor not being able to repay their indebtedness. This makes the whole issue of making microfinance available to the poor very problematic.

In general terms, this chapter discusses the risks involved in extending microfinance to the poor and how best to manage these risk, bearing in mind that without microfinance, the poor may never have access to finance required for their entrepreneurial activities hence may remain in a vicious cycle of poverty or vulnerability to it.

The review begins with defining microfinance as a poverty reduction instrument. The nature of the risks facing microfinance institutions is also examined. Managing these risks effectively can bring the poor in Africa and Ghana for that matter closer to microfinance services rather than scaring them away from it.

The various methodologies that microfinance institutions use in managing the risk of lending to the poor in supporting their entrepreneurial activity in the areas of risk identification, assessment, measurement and finally its management are also discussed. Finally, drawing from the various issues discussed, both conceptual and theoretical frameworks are presented and discussed on how the risk of microfinancing the poor can be looked at in a holistic manner to provide the necessary financial services to the entrepreneurial poor in a sustainable manner.

4.3 THE POOR AND ACCESS TO MAINSTREAM CREDIT

Globally, research has shown that the poor and vulnerable people are excluded from benefiting from formal financial systems. This exclusion is being thought of as the main obstacle to sustainable poverty reduction (Deb & Suri, 2013:268; Ibtissem & Bouri, 2013). This exclusion can either be partial or total depending on the location of the individual (Helms, 2006; Akpalu, Alnaa & Aglobitse, 2012). In most developed countries, there exist partial exclusion whiles there is the existence of total exclusion in developing countries (Helms, 2006).

This exclusion whether partial or total has necessitated the development of a variety of both informal and formal financial arrangements that are geared towards serving the poor and the unbanked who lack access to credit. These financial arrangements or intermediaries commonly called microfinance has come to serve the need of the poor by providing them with microloans and other financial services that have the capability of reducing their poverty and vulnerability (Weber & Musshoff, 2013; Laha & Kuri, 2015; Dorfleitner, Röhe & Renier, 2016).

Formal financial institutions make the argument for excluding the poor from their credit systems because poor people live in riskier environments, they lack assets that can be used as collateral, more so, they do not have formal wage jobs that can be predicted and they also lack the necessary credit history that can help in predicting repayment ability of the poor. This undoubtedly means that lending to the poor may be riskier and costly to formal financial institutions (Jia, Cull, Guo & Mac, 2016; Donou-Adonsoua & Sylwester, 2016).

Formal financial institutions, therefore, do not have enough incentives to extend credit to the poor, and this is the reason the poor are financially excluded from formal financial services. The birth of microfinance institutions as discussed earlier has come to close the gap between the rich and the poor. These institutions have the responsibility of advancing credit facilities to the unbanked that are mainly low-income earners and the self-employed who do not have collateral assets to secure those advances. These credit advances help the poor in providing the necessary working capital for their small businesses, overcome consumption difficulties as well as to cope with illness and for educational purposes (Katsushi, Raghav, Thapa & Annim, 2012; Rooyen, Stewart & Wet, 2012).

The financing gap in the case of Ghana is not different. Mainstream credit from the commercial banks is not extended to the economically active poor. Mainly this category of the population is served largely by the microfinance institutions that require less or no collateral in advancing microcredit to them.

4.4 MICROFINANCE AND ACCESS OF THE POOR TO CREDIT

A social development programme which had begun in the rural town of Jobra in 1976 in Bangladesh has evolved into a global industry with a commercial paradigm with thousands of microfinance institutions serving millions of clients (Kickul, Terjesen, Bacq & Griffiths, 2012:455). Modern microfinance activity began in the 1970s with institutions like the Grameen Bank in Bangladesh and BancoSol in Bolivia. These institutions are dedicated to advancing microcredit to poor households who are financially excluded from formal financial systems (Tulchin, 2006).

The pessimistic view of microfinance is that lending to the poor is doomed to failure and unprofitable.The claims are that the costs associated with the provision of microfinance services to the poor are too high, the poor are not creditworthy and are too vulnerable in their personal and family circumstances. However, this negative view has changed over the past few decades with a lot of success stories globally. For instance, it is estimated that globally microfinance clients grow by fifty percent annually and access to financial services to the poor keeps improving on a yearly basis and pushing poverty further away (Islam, 2008).

However, the mission of microfinance is to provide a comprehensive range of financial services in various forms such as savings; loans, insurance services and money transfer services to the poor and the very poor (Helmes, 2006; Epstein & Yuthas, 2010:201). Microfinance Institutions, therefore, play a critical role in providing the aforementioned financial services to the poor. These financial services help the poor to increase their assets and reduce their vulnerability to shocks in their environment, extend markets, and fostering social transformation at the individual,household, enterprise and community levels (CGAP, 2010; Van Santen, 2010).

It is very crucial to mention that even though some studies indicate that microfinance can play a role in the battle against poverty, it is also recognised that it is not always the appropriate method in all circumstances of the poor. It should therefore not be the only antidote for ending poverty. Other interventions may be needed to effectively address household poverty.

Microfinance is particularly not suitable for the destitute, who may need grants or other public resources such as welfare schemes to transform their lives rather than taking a microloan, which comes with a repayment burden. Helms, (2006) has therefore indicated that most microfinance clients should either be extremely poor, moderately poor, or vulnerable non-poor. The various categories of microfinance clients are shown below:

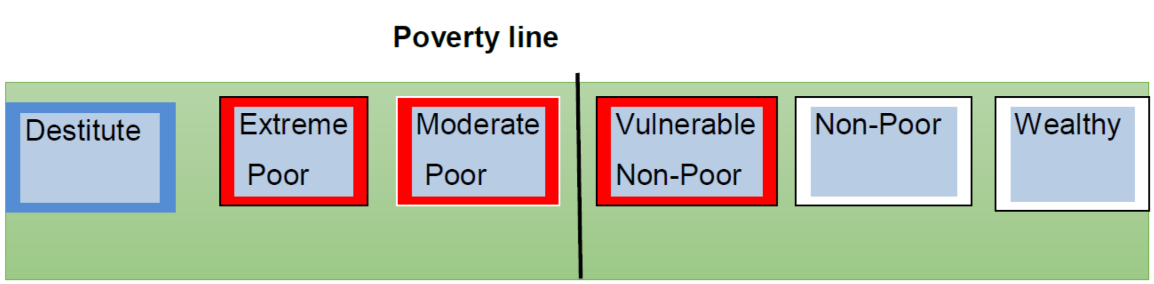


Figure 4.2: Categories of Microfinance Clients

Source: (Helmes, 2006:20)

Microfinance programmes are therefore woven around these categories of people or just below the poverty line. Therefore, microfinance programmes that have a clear agenda and strategy of targeting the poorest of communities have most of their clients coming from these categories.

One major obstacle in financing the poor is how to clearly determine who the poor is. Determining the poor is a very daunting task. It is very imperative therefore to emphasise that microfinance can only achieve its objective of poverty reduction if only the poor are clearly identified, targeted and separated from the non-poor in the provision of such financial services (Nikhil, 2009:191; Abiola, 2011:218). MFI's, therefore, needs rigorous criteria that are used to determine who the poor really is.

In most cases, poverty assessment parameters such as income and consumption and the use of non-income parameters such as access to education, health, housing, vulnerability, social exclusion, and access to social capital are very useful in determining who the poor is (Aguilar, 2006; Esposito & Chiappero-Martinetti, 2010).

The poor in Ghana benefit from the microfinance industry. A range of financial services including, microcredit, savings and micro-insurance are currently available to the poor in Ghana. However, as discussed above, for microfinance to fully benefit the poor in Ghana, the poor needs to be clearly identified, targeted and served with the appropriate available financial tools through entrepreneurial activity and that can have a lasting impact on poverty reduction.

4.4.1 MICROFINANCE DEFINED

Microfinance is a generic term that is used to refer to both informal and formal arrangements that are geared towards offering financial services including a non-collateralized loan to the poor by using a market-led approach and innovative lending technologies on a sustainable basis (Hartarska & Nadolnyak, 2007; Zulfiqar, 2014).

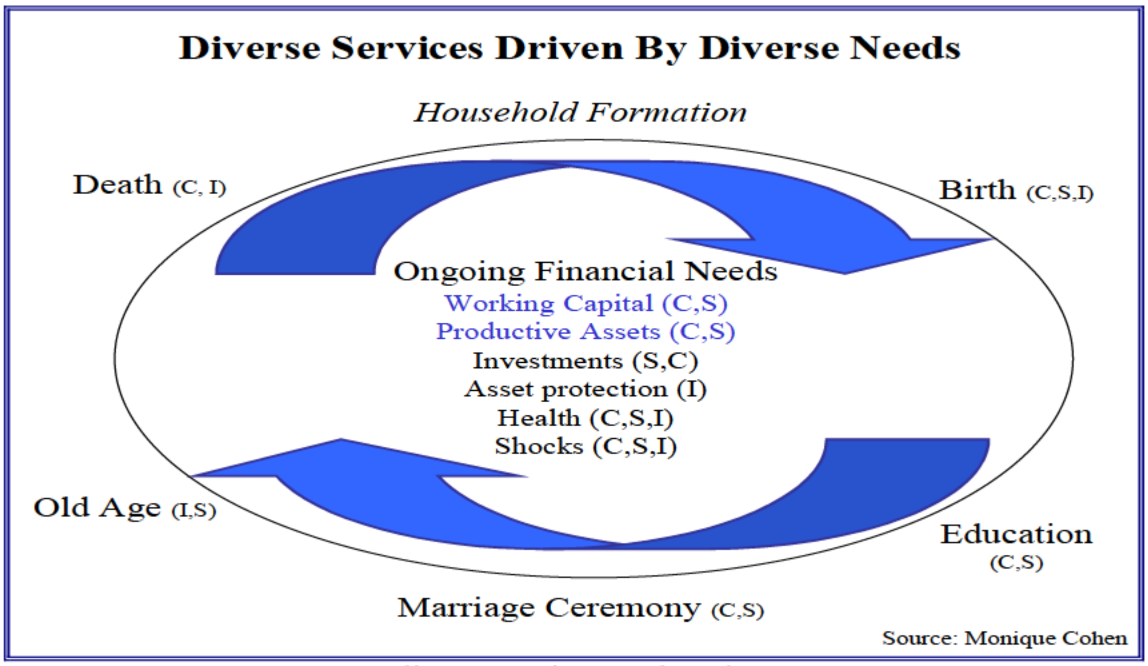
Ocasio, (2013) have explained the term to mean the provision of loans and other financial services having the poor in mind in an attempt to end their poverty by promoting self-employment and entrepreneurship. These financial services according to Dzansi & Atiase, (2014) involve the provision of services such as savings, microloans,insurance,payment services and money transfers to poor people living either in rural or urban areas who are unable to access such services from the formal financial intermediaries such as banks. It is ‘micro' because the financial services that microfinance institutions provide involve small amounts of money as compared to services provided by commercial banks which usually involves huge credit advances.

In literature, microfinance and microcredit are always used interchangeably. However, it is important to highlight the difference between these two terms. Whereas microcredit refers to solely the provision of microloans to support the poor's micro businesses, microfinance involves the situation where microloans are supplemented with other non-credit financial services such as savings, insurance, and money transfer services all to reduce the poor’s vulnerability and poverty levels (Imai, Gaiha,Thapa & Anim, 2012; Mago, 2014). Operationally, microfinance can be defined as the provision of a range of financial services which is not limited to microcredit alone but including other financial services such as savings,money transfer services, entrepreneurial education as well as micro insurance which are all geared towards poverty reduction.

4.4.2 THE MICROFINANCE PROCESS

A suitable microfinance programme starts from targeting the poor and separating them from the non-poor (Dzansi & Atiase, 2014; CGAP, 2010). The poor have their own needs. These needs are supposed to be met with suitable products that are designed with those needs in mind. As discussed earlier, to reduce poverty with microfinance adequately, it is to be understood that, the poor needs a range of financial service not just working capital loans.

The needs may include access to lump sums of money to send their children to school, to respond to health challenges, for funerals, for social and religious festivals and to save up for old age (Graham, 2003). The diagram below outlines the diverse needs of the poor.



C = credit, S = savings and I = insurance

Figure 4.3 Diverse Needs of the Poor
Source: (Graham, 2003:1).

In addition, there should be an acceptance of collateral substitutes, women-oriented programmes, taking financial service to the poor, client participation, incentivize repayment and loyalty. A well-designed microfinance programme should also involve small transactions, loans mainly for entrepreneurial activity which requires training, group-based lending, simple application process ,provision of services in underserved communities,the charging of market level interest rates and in some cases the provision of a micro-insurance against shocks that can occur in their households and micro-enterprises (World Bank, 2007).

The microfinance process usually ends with an impact assessment. Impact assessment generally, is aimed at measuring the effect of a development project on the intended beneficiaries (Abiodun, Tolulope, Rahman, & Adeola, 2010).

Impact assessments in microfinance have the objective of measuring outcomes of microfinance interventions but not merely assessing inputs and outputs. Impact assessment in microfinance is the measurement of the effect of microfinance services on the poor (Abiodun, Tolulope, Rahman, & Adeola, 2010). Conventionally, repeat borrowing and high repayment rates are thought to be signs of a good microfinance programme. However, these signs fail to answer basic questions about the positive effect of such programmes.

When the poor participate in credit programme over time, the expectation is that such a client is affected by the programme positively and transformation in terms of poverty reduction should take place in all aspects of the client's life. Such a transformation should happen at the individual, household, and the enterprise levels (Mayoux, 2001). Impact assessment in microfinance, therefore, aims at evaluating by how much and for whom poverty has been alleviated or whether poverty is rather increased by the microfinance programme (De Haan, 2010).

The micro financing process in Ghana is similar to what has been discussed above. Most microfinance institutions in Ghana target the economically active poor and provide them with a range of financial services that are supposed to increase their assets and eventually reduce their poverty. The MFIs use either the individual or group lending methodology that tries to identify the level of need of the individual and assess the capacity to repay. Clearly, what is currently not done adequately in most MFIs is the impact assessment, which is supposed to determine the level of poverty reduction both in depth and breath.

4.4.3 FORMS OF MICROFINANCE

4.4.3.1 Regulated Microfinance

The current rapid growth of the microfinance industry has brought increasing request for its regulation just like the formal financial sector. The main reason for this call centres on protecting the financial system as a whole, and the financial institutions' ability to repay their depositors when the need arises. It is also to promote a financial inclusiveness whereby the poor, which is the main target, is not left out of the financial system (Segun, Hussein, Daniel & Olajide, 2015).

In attempt to regulate and supervise the microfinance sector, regulators need to understand the peculiar characteristics of the microfinance industry, the various risks that are involved, the needs of the clients, the products and services and the nature of the institutions that provide such services (Macchiavello, 2012; Anku-Tsede, 2014; Montes & Monteiro, 2014).

In regulating the microfinance, industry there is the need to draw a clear distinction between prudential and non-prudential regulation. Prudential supervision encompasses all measures by which regulators enforce compliance by licensed financial institutions with a given legal and regulatory framework because licensing implies that the financial authority is willing to assume responsibility for the soundness of the regulated financial institution which the public may be dealing with (CGAP, 2012). In addition, prudential regulations aim at protecting the safety of small deposits most of which come from poor clients. Protecting the safety of these deposits is crucial to prevent the loss of those deposits, which can further deepen the woes of the poor (Cull, Demirgu ̈ßc-Kunt & Morduch, 2011:949).

Microfinance institutions also encounter some level of non-prudential regulation. These regulations pertain mainly to rules governing MFI formation and operations, consumer protection, fraud prevention, establishing credit information services, secured transactions, interest rate limits, foreign ownership limitations, and tax and accounting issues (Cull et al., 2011).

Karnani, (2011) has pointed out that the current volatile combination of profit-seeking microfinance companies and vulnerable borrowers is potentially dangerous for exploiting the poor to the advantage of microfinance institutions. The microfinance industry, therefore, needs a clear and a transparent regulatory framework that addresses transparency, high-interest rates, and abusive loan recovery practices which microfinance institutions adopt.

The regulation of a financial sector of a country usually includes self-regulation. Self-regulation entails all forms of auxiliary regulation by governing boards of financial institutions, their networks, and associations, or even from apex organisations (Afonso, Morvant-Roux, Guérin & Forcella, 2016).

4.4.3.2 Unregulated Microfinance

Unregulated microfinance is usually provided by individuals, clubs, societies, associations, and unions that are geared towards helping their members financially. This type of microfinance is not commercially oriented and is not provided by formal institutions (Ijaiya, 2011). These financial services are created by people themselves without external intervention and with no legal status and external regulation (Ijaiya, 2011). Examples of unregulated institutions may include Accumulated Savings and Credit Associations (ASCRAs), Rotating Savings and Credit Associations (ROSCAs); self-help groups and savings collectors. The cost of running these services are lower since it involves per group lending systems where clients can co-guarantee for each other’s loans (Kedir & Ibrahim, 2011; Donoso, Altunbas & Kara, 2011).

The purpose of unregulated microfinance is similar to the regulated ones except that the regulated microfinance adopts a commercial approach in its delivery.

Unregulated microfinance plays an important role in poverty reduction and vulnerabilities that are associated with livelihoods, incomes, and unexpected family shocks. This is possible because unregulated microfinance is usually at the doorsteps of the members who do not need any formal procedures to access it. The setting of interest rates and management of such institutions are done by members themselves without any external influence or regulation (Anku-Tsede, 2014; Segun, Hussein, Daniel & Olajide, 2015).

4.5 MICROFINANCE IN GHANA

Accessibility to adequate and affordable working capital in the form of the loan remains one of the key challenges facing the development of the Ghanaian economy. Despite efforts by successive governments since independence in 1957 to address this challenge, the situation remains precarious even though a lot of improvement has been seen. However, issues of availability of financial institutions; proximity to clients; effectiveness of service provision; adequacy of loans granted; and timeliness and cost of services provided remain unresolved (Egyir, 2010).

Ghana has a tiered system of financial intermediation, which includes formal, semi-formal and informal institutions providing microfinance. The Central Bank of Ghana supervises and regulates the credit activities of all licensed institutions. The Banking Law of 1989; the Non-Bank Financial Institutions (NBFI) Law of 1993; and the Banking Act 673 of 2004 are the main legal instruments under which all licensed financial institutions are supposed to operate.

The formal sector institutions providing microfinance services consist mainly of Rural Banks, Savings, and Loan (S&L) companies and Credit Unions. (Gyamfi, 2012:98). The informal system of financing known as ‘susu’ also operates in Ghana. These various forms of institutions providing microfinance in Ghana are discussed below.

4.5.1 FORMS OF MICROFINANCE IN GHANA

4.5.1.1 Rural Banking in Ghana

Rural Banks are public companies owned by communities with capitalization assistance from the Central Bank. They are registered and licensed as such under the provisions of the Banking Law. Rural banks are limited in terms of their geographical zone that they are permitted to operate within a particular rural area (Afful, Hejkrlík & Doucha, 2015).

The main purpose of rural banking is to bring financial services close to the rural poor who otherwise would not have had access to such services. In terms of ownership structure, no one individual can own more than 30% of the total shares of the bank and in terms of a corporate shareholder, it shall not exceed 50%. The minimum capitalization for rural banks currently is US $50,000 or GHC 150,000 (Bank of Ghana, 2011:2).

4.5.1.2 Savings and Loans Companies (S&L)

In Ghana, Savings, and Loans (S&L) companies are also formal institutions registered and licensed under the NBFI Law and are permitted to provide microfinance services to their clients. They are however limited to loans, savings, and time deposits. S&L companies are owned by private individuals and have branching privileges. As part of the restructuring of the Ghanaian financial sector, all existing Non-Bank Financial Institutions shall maintain a minimum capital of GH¢1,000,000.00 (one million New Ghana cedis) for non-deposit-taking institutions and GH¢7,000,000 (seven million New Ghana cedis) for all new entrants into the Non-Bank financial services industry. (Bank of Ghana, 2011:2).

4.5.1.3 Credit Unions

Credit Unions are also formal institutions that are licensed to provide microfinance services solely to its members. They are mutually owned co-operative associations of individual members that contribute on regular basis, which entitles members to take loans with a minimal interest rate. They are also required to operate under, the NBFI Law, be registered and licensed by the Central Bank. They are also required to operate under the cooperative law and regulated by the Credit Union Supervisory Board, which is a government agency (Adusei, 2013).

4.5.1.4 Financial Non-Governmental Organizations (FNGOs)

Financial Non-governmental institutions (FNGOs) are also another type of institution that is licensed and regulated by the Central Bank to provide microfinance services to both the rural and urban poor. FNGOs are private trust entities that are normally limited by guarantees. (Anku-Tsede, 2014). Until recently they were not subject to any external regulation. They are supposed to belong to an umbrella body such as Association of Financials Non-Governmental organisation (ASSFIN). FNGOs by law are not supposed to be deposit taking and their funding sources are mostly from donors and contributions from its members. Currently, FNGOs fall under the tier three system of the Central Bank's regulation of microfinance institutions. All institutions under the tier three classifications shall maintain a minimum capital of US$19,000 or GH¢60,000.00 (Bank of Ghana, 2011).

4.5.1.5 Deposit-Taking Microfinance Institutions

Deposit-taking microfinance Institutions are typically referred to as microfinance institutions. These institutions fall under Tier 2 of the current tier system of microfinance regulations. They are allowed to take deposits from the public and are supposed to keep reserves with the Central Bank (Bank of Ghana). They belong to the umbrella body called Ghana Micro Finance Network (GHAMFIN), a body that provides staff training and organisational capacity building, disseminates best practice guidelines and standards for governance to support performance efficiency (Bank of Ghana, 2011).

4.5.1.6 'Susu' Collectors

The most visible form of informal microfinance in Ghana is the 'susu' (Gyamfi, 2012:98). The 'susu' collectors are neither registered nor licensed by any government agency or department. However, they belong to the National Association of Susu Collectors (NASC) '***Susu collectors'*** meaning ***'small collections'*** provide collection and savings services mostly for market women who normally feel reluctant to visit the formal institutions to save their proceeds from sales. Sometimes Susu collectors also offer loans at low-interest rates to their contributors using their deposits as cash collateral (Gyasi, 2012;Stoesz, Gitau, Rodriguez, & Thompson, 2016).

4.6 MICROFINANCE CREDIT RISK

The rapid growth in the microfinance industry has made MFIs to face various challenges that threaten the survival and sustainability of the industry. One of these major threats is the ability of the MFIs to manage the risk of default that is associated with these categories of vulnerable people that are referred as 'poor' (Ibtissem & Bouri, 2013:10). It therefore stands to say that, if microfinance institutions are to be sustainable, increase their outreach, gain confidence in the face of investors, donors and be able achieve the mission of poverty reduction, the credit risk associated with microfinance needs to be identified, assessed, measured, evaluated, and managed efficiently (Ayayi, 2012:46; Ibtissem & Bouri, 2013:10; Lee, Jusup, Podobnik & Iwasa, 2015).

Microfinance credit risk is the risk of default in the sense that the borrower will be unable to meet payment terms of the loan taken as agreed in the loan contract (Bodla & Verma, 2009:47: Dubrana, 2010:1). Credit risk arises when there is the potential that an obligor (borrower) is either unwilling to perform on an obligation (loan contract) or his ability to perform such obligation is affected by factors beyond his control and that could result in financial and economic loss to the MFI (Colquitt, 2007; Dubrana, 2010; YI, 2008).

Bodla and Verma (2009:47) explain that credit risk may result in the possibility of financial losses and the reduction of the credit quality of borrowers to the MFI. However, Cendrowski and Mair (2009) posit that, credit risk is the risk to earnings or capital, which occurs because of late and non-payment of a microfinance loan. This implies that losses are experienced when both anticipated interest and principal are not collected and that eventually results into defaults. There could be so many reasons that may be attributed to loan default. However, it is important to mention that loan default can have an adverse effect and negative implications on the MFI if it is not managed well.

According to the Microfinance Network (2000), credit risk in microfinance has two main elements; transactional risk and portfolio risk. These risks are briefly discussed below.

4.6.1 TRANSACTIONAL RISK

A transaction risk refers to the type of risk that is related to an individual or institutional borrower that an MFI is transacting a business with. A borrower may not be trustworthy and may have an initial intention of not paying back the loan when granted. In some cases, the borrower may not have the capacity to pay back the loan and if a good assessment is not done, the loan ends up not been paid. Therefore, all loan loss that is experienced because of clients' migration, business failure, dishonesty, and any unexpected circumstances is referred to as a transaction risk (Microfinance Network, 2000:18; Yiannaki, 2012:420).

4.6.2 PORTFOLIO RISK

Portfolio risk is the aggregate of risk that can be experienced in the loan delivery activities of the MFI. Colquitt, 2007:265) defines the concept as follows: ‘‘A portfolio risk refers to risk bearing factors that are inherent in the portfolio of an MFI itself and this can result in loss of income or capital from a segment of the portfolio’’.

This implies that an MFI may lose income or even the total portfolio due to certain factors such as the type of community in which a microfinance programme is implemented, a particular type of trade, political reasons or even due to an outbreak of a communal disease (Goldberg & Palladini, 2010:7).

4.6.3 THE NATURE OF MICROFINANCE CREDIT RISK

Credit risk is an integral part of all institutions that provide financial services. Any institution that conducts cash transactions or makes investments risks the loss of those funds. (Colquitt, 2007:1). Much more critical is that of a microfinance institution which offers financial services to the poor who are very vulnerable in nature hence risky in nature. When microfinance institutions issue loans, there is a risk of borrower default. Thus, the borrower will be unwilling or unable to pay as agreed. This eventually results in loss of income and capital to shareholders. MFIs, therefore, face credit risk that they must manage efficiently and effectively to be successful (Gyamfi, 2012:97). If the MFI does not manage its credit risk well, it is unlikely to meet its social and financial objectives. When a financial loss occurs because of poor credit risk management, the MFI loses confidence in the face of its donors, investors, borrowers, and depositors. Eventually, the MFI goes out of business.

The source of microfinance credit risk can either come from the borrower or the lender, which in this case is the MFI. Many reasons can be attributed to default in microfinance. However, justifying the purpose of the loan, determining appropriate loan term and the avoidance of profit maximisation motive of MFIs are critical in managing successful microfinance credit risk (Addo & Twum, 2013).

The rapidly growing microfinance industry, the increasing competition in the microcredit market, the increasing over-indebtedness and multiple borrowing among micro-entrepreneurs demands that MFIs design strategies and risk management frameworks that effectively identifies, assesses, measures and manages the risk of default of microfinance borrowers (Baklouti & Abdelfettah, 2013:10).

4.7 MICROFINANCE CREDIT RISK MANAGEMENT –THE PROCESS PERSPECTIVE

Credit risk management is the process of controlling the severity of a potential loan default to an MFI (Arvelo, Bell, Novak, Rose & Venugopal, 2008). Microfinance clients are vulnerable to all kinds of factors and their life circumstances are erratic and change very frequently. Because of this vulnerability, MFIs are always at risk of losing the loans they have issued to their clients.

More so, when MFIs collect deposits from the public and lend back to clients, they are in effect putting the depositors' money at risk, if such loans are not paid back to the microfinance institution. When MFIs do not identify, and manage credit risk effectively, they end up losing money as their non-performing loan portfolio increases and they fail to gain financial viability to meet their social and financial objectives. It is therefore expected that MFIs analyse the indicators and characteristics of the borrowers that pose a potential threat to the MFI's financial sustainability (Arvelo, Bell, Novak, Rose, & Venugopal, 2008; Addo & Twum, 2013).

Credit risk management in microfinance involves the ability of the institution's structures and systems to easily identify, assess, measure and manage the risk of default among its poor borrowers and in most cases, prevent it or put safeguards in place to forestall portfolio quality. The process involves the use of the risk management feedback loop that clearly provides a systematic guide to dealing with all identifiable risks involved in the lending transactions of the MFI. This process involves identification, assessment, measurement, and management (Microfinance Network, 2000). The risk management feedback loop is shown below.

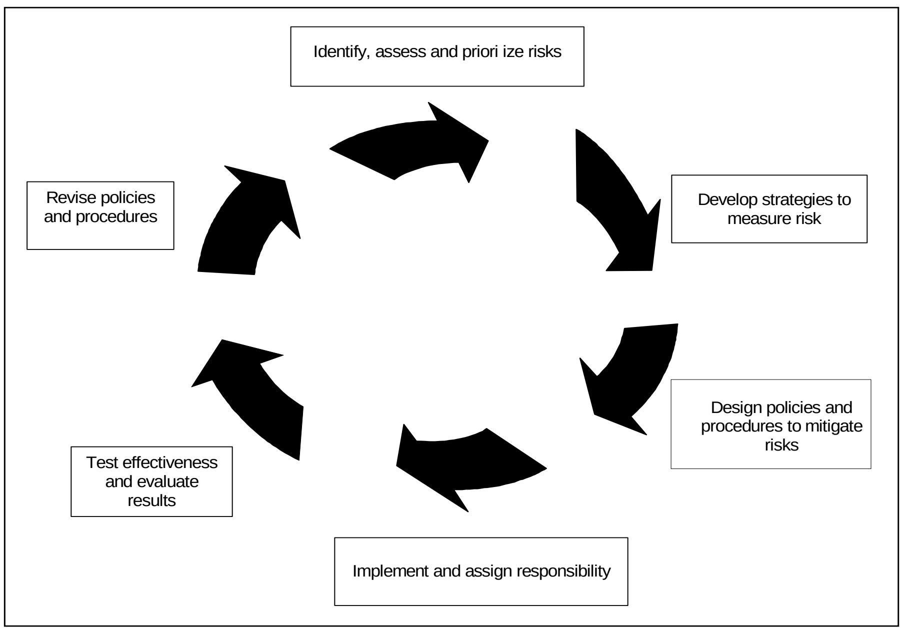


Fig. 4.4 Risk Management Feedback Loop
Source:(Microfinance Network, 2000)

4.7.1 MICROFINANCE CREDIT RISK IDENTIFICATION

Although cyclical in nature, the feedback loop suggests that the first step in risk assessment is to identify risks. Risk identification is the process of gathering institutional information pertaining to the loan portfolio to identify the list of potential risks that could be prevented, transferred, mitigated, or totally avoided (Van Vuureen, 2011:34).

To identify risks inherent in an MFIs operation, the MFI reviews its activities and functions systematically to determine which of its operations are likely to post some risk to the MFI. Some of the areas an MFI would normally examine include the credit and lending operations, funding sources, loan transactions and portfolio management processes. This process eventually generates a list of potential major risks that require management's close attention and monitoring (Microfinance Network, 2000; Pearlman, 2012).

4.7.2 MICROFINANCE CREDIT RISK ASSESSMENT

Credit risk assessment or analysis is the process through which an MFI evaluates the creditworthiness of prospective loan applicants that exposes the financial institution to credit risk. The credit assessment ultimately results in an estimation of the likelihood of borrower default.

The objective of credit analyses can be simply stated as to forecast the ability and willingness of a borrower to meet its debt obligations when due (Ayayi, 2012; Oana, 2012). A study of what exist outside microfinance in the mainstream banks reveals that there are three main approaches that are used to estimate borrower's probability of default. These approaches are the Structural approach, statistical approach, and expert judgment approach (Baklouti & Abdelfettah, 2013:17).

According to Baklouti and Abdelfettah (2013), the structural approach is based on modelling the underlying dynamics of interest rates and the individual or firm characteristics that can lead to a default event. These financial dynamics, generally described by stochastic processes evaluate the default probability. This approach is used in portfolio credit risk models (Huang & Luo, 2016; Yong & Weidong, 2016).

The second approach is the empirical or the statistical approach. This technique involves the use of models in the various aspects of the credit risk assessment process including credit scoring, estimating, or measuring credit risk at both the individual transaction and overall portfolio levels, portfolio administration, stress testing loans or portfolios and capital allocation (Gool, Baesens, Sercu & Verbeke, 2009:2). In this approach, credit-scoring models link borrower characteristics, such as financial and non-financial variables to repayment performance on previous loans to estimate the borrower default (Waagepetersen, 2010). This implies that the indication of default and information about the borrower is learned from historical data.

The third approach is the expert judgment approach or subjective judgment approach. In this approach, creditworthiness is estimated purely by credit experts based on their judgment and their intentions (Elías, Padilla & Padilla, 2012). The decision of granting credit is based on the adoption of certain rules or principles of lending carefully built by skilled loan officers themselves. For example, under the 5Cs of credit evaluation criteria, evaluation is based on ***Character, Capacity, Condition, Capital, and Collateral*** (Baklouti & Abdelfettah, 2013).

Academic research regarding the credit scoring models for MFI is yet at developing stage and opinions on its applicability are divergent. Although some researchers highlight the necessity of implementation of credit scoring in MFI some other researchers think that it is difficult to incorporate and adapt this technique in the context of microfinance because of the availability of information, which is usually qualitative and informal in the context of microfinance (Baklouti & Abdelfettah, 2013:20; Gool, Baesens, Sercu & Verbeke, 2009:20; Elías, Padilla & Padilla, 2012:138).

4.7.3 MICROFINANCE CREDIT RISK MEASUREMENT

Credit risk measurement attempts to quantify how much money a counterparty (borrower) might owe an MFI in the event of default either in the present known as current exposure or in the future known as potential exposure (Jacobs, 2014).

The main goal of credit risk measurement in any MFI is to make conscious, informed decisions about which risks to take, what is an acceptable level of risk to the institution, what are the cost implications, and what cost-benefit trade-off is reasonable. (Shclickenmaier, 2012; Jacobs, 2014; Allena, Powell & Singh, 2016).

Usually, it is the Board of Director's responsibility to ensure that the MFI is making informed decisions about how much risk is tolerable and that there is sufficient capital and liquidity for the MFI to absorb any financial loss, should it occur. MFIs can make several choices on how to mitigate a risk. They can: *accept* the risk as part of doing business (e.g. a cost of credit risk is annual loan losses); *mitigate* the risk to bring it to reasonable levels through carefully-designed policies and procedures (e.g. centralized disbursement, and group lending); *eliminate* the risk entirely (e.g. security to prevent physical property loss or computer back-up for the management information systems); or *transfer* the risk (e.g. buy insurance against certain losses) (Microfinance Network, 2000).

4.7.4 MICROFINANCE CREDIT RISK MANAGEMENT

Credit risk management incorporates all the decision-making processes that take place before and after the credit decision is made which includes all monitoring and reporting process (Lee, Jusup, Podobnik & Iwasa, 2015). This implies that MFIs need to be proactive in anticipating credit risks in their portfolio and in their various transactions rather than just react to them when they do occur. It involves identification, measurement, monitoring and controlling credit risks to ensure that the individuals who take or manage credit risk clearly understand it, and the MFI's risk exposure is within the limits established by the Board of Directors (BOD). More importantly, the MFI makes sure there is a sufficient capital as a buffer for any risks taken (Lee, Jusup, Podobnik & Iwasa, 2015).

The goal of credit risk management, is to maximize a financial institution's risk-adjusted rate of return by maintaining credit risk exposure within acceptable limits that eventually turn to have an effect on the income and the structure of assets and liabilities of the MFI (Andryushchenko, Savina, Stepanov, Zaritova & Tanatova, 2015). It also provides an early warning system for potential problems before they do occur to become larger problems to drain management time and resources (Goldberg & Palladini, 2010).

4.8 MICROFINANCE AS A POVERTY REDUCTION INSTRUMENT IN GHANA

The main reason and purpose for microfinance services are not far-fetched. Microfinance as a poverty reduction strategy emerged in the 1970s to combat poverty by way of increasing access to credit to poor people mainly in developing countries who live on less than $1 per day (Rajbanshi, Huang, & Wydick, 2015). There is an extant literature that has emphasised this poverty reduction mission of microfinance especially for third world countries where poverty remains a challenge to development efforts (Hartarska & Nadolnyak, 2007; Khavul, 2010; Deb & Suri, 2013).

Through microfinance, the poor can have access to credit and other services which enable them to improve their consumption, build equity over time, and improve their earning capacity which finally leads to an overall quality of life (Deb & Suri, 2013; Akotey & Adjasi, 2016). Microfinance in all forms, typology and dimensions is supposed to reduce poverty by providing working capital loans and other related services to the entrepreneurially poor especially women who are not able to have financial access from the formal sector to reduce their poverty (Mahmood, Hussain

& Matlay, 2014; Chliova, Brinckmann & Rosenbusch, 2015). Poverty reduction, therefore, is at the heart of microfinance.

Lash (2008) has argued that the promotion of financial inclusiveness and the development of financial institutions in a country can reduce poverty in two main ways. Firstly, it predicts economic growth of a country and secondly it also reduces income inequality among individuals. Akpalua, Alnaab, and Aglobitse (2012) have therefore argued that microfinance can empower women who are more vulnerable in the sense that, in most developing countries, women bear the task of providing for the household’s needs and are very instrumental in providing basic needs related to health, nutrition, and education.

Akpalua, Alnaab, & Aglobitse, (2012) have indicated that microfinance can help improve general food security in a country. The researchers argued that with access to credit, peasant farmers would be able to afford the cost of capitally intensive technologies and farm inputs that will, in turn, improve farm production and human labour in the production of food crops. Khavul (2010) has intimated that there are currently an estimated 2.8 billion poor people who live on less than $2 a day and this has necessitated poverty alleviation to remain the heartbeat of many microfinance programmes both in the developing and the developed world.

Micro insurance is one of the key components of any microfinance programme. Biener, Eling and Schmit (2014) have therefore pointed out that every successful microfinance programme that is geared towards effective poverty reduction, needs to have health insurance, life insurance as well as insurance against crop failure as an integrated component due the type of vulnerability that is associated with the poor and the very poor. Chowdhury (2009:2) have asserted that it is not just the issuance of loans to the poor that brings the solution to poverty. However, the poor needs to have ‘skills, vision, creativity, persistence’ and needs to be provided with general entrepreneurial training to succeed with microfinance.

In Ghana, microfinance has been very instrumental in the poverty reduction efforts of successive governments and in the promotion of entrepreneurship among the poor and the poorest. The 2000 Population and Housing Census in Ghana recounted that about 80% of the working population is found in the private informal sector and this category of Ghanaians are characterized as lacking access to credit and other financial services and this has eventually thwarted all the efforts to bring the informal sector into active participation in the Ghanaian economy (Bank of Ghana, 2007).

The report of the Ghana Living Standards Survey round five (GLSS5) indicates that about eighty-six percent of the total population of Ghanaians live below the poverty line and resides mainly in rural areas which engage mainly in informal activities such as petty trading, farming animal husbandry and crafts (Annim & Alnaa, 2013).

Considering the above assertions, microfinance institutions in Ghana have intervened with their various services and products to engage the informal sector in making them more productive. As noted in the previous discussions above, access to credit can enable the poor to build assets for themselves and reduce their vulnerability to poverty and this has caused most MFIs in Ghana to be engaged in financing the informal sector. The Bank of Ghana (2007) has recounted that microfinance institutions in Ghana have advanced credit to many individuals and groups operating in the informal sector. Some of the activities financed are petty trading, crop farming, dairy farming, poultry farming, weaving and crafts as well as general trading.

Poverty reduction among women is critical to the development of every nation. In Ghana, women form about 51% of the total population of Ghana and have also represented the highest proportion of the poor in Ghana due to gender inequalities and other socio-economic barriers such as the patriarchal system. Due to these barriers, women generally lack access to financial services from the formal financial services (Akpalua, Alnaab & Aglobitse, 2012). Microfinance intervention from MFIs especially those that target women has therefore become imperative to boost women business output, increase their earnings as well as general improvement in their socio-economic wellbeing.

It has been proven that microfinance programs have a great contribution in reducing poverty by enabling poor entrepreneurs to initiate their own business, teaching them how to protect the capital they have, to deal with risk, and to expand the circle of their economic activities. Availability of a microcredit schemes increases the number of small enterprises, which in turn creates employment opportunities for the poorest and stimulates, therefore, economic development and social inclusion (Anku-Tsede, 2014).

4.9 THE THEORETICAL AND CONCEPTUAL FRAMEWORK

4.9.1 THE THEORETICAL FRAMEWORK

This study is broadly based on systems theory. Microfinance is not just the provision of a microcredit to the entrepreneurial poor. However, microfinance is the provision of a broad range of both financial and non-financial services to the entrepreneurial poor in addressing their poverty situation (Copestake, 2007:1721; De Haan & Lakwob, 2010:529; Mahmood, Hussain & Matlay, 2014:231). This broad range of services according to Dzansi & Atiase (2014) includes microcredit, the provision of savings facilities, micro insurance, business support services, money transfer services as well as health education, which all are expected to have an impact on poverty reduction. Among these chain of activities is credit risk management which forms part of the credit delivery processes of MFIs.

In order to be effective and have the desired impact on poverty reduction,the provision of this broad range of services, are supposed to be interconnected and interrelated coupled with the available entrepreneurial expertise of the poor and the existing regulatory framework in a country. This makes the general systems theory of Miller (1978) and Ackoff (1981) applicable to the current study.

A system may be broadly defined as consisting of complex interacting components together with the relationships among them that permit the identification of a boundary-maintaining entity or process (Laszlo & Krippner, 1998).

System theory focuses on the interrelatedness and interdependence of system constituents/components. System theory suggests that failure of one component leads to the collapse of the whole system – *entropy*. In accordance with this hallmark component, if microfinance is to meet its mandate of extricating the poor from poverty or vulnerability to it, all the components as illustrated below needs to be working and any constraints imposed by microfinance risk management practices (as a component of microcredit system) on extending microfinance to the entrepreneurial poor need to be identified and removed or modified. This means that from a systems perspective, the theory of ***constraints*** is also relevant to this study.

Basically, the Theory of Constraints (TOC) applies the cause-and-effect thinking processes to understanding and improving a system. In effect, there is the need to identify and remove credit risk management practices that end up hindering the ability of microfinance in achieving its objective of poverty reduction. (Ayayi, 2012:37; Gyamfi, 2012:96; Addo & Twum, 2013:9) The various components of a typical successful microfinance delivery system include the implementation of an effective Credit Risk Management Policies (CRMP) of MFIs through the presence of Entrepreneurial Expertise (EE) of the poor, and the availability of the Legal and Financial Regulatory Regime(LRR) in Ghana, leading to a Sustainable Microfinance (SM) delivery and its eventual impact on Poverty Reduction(PR). The next section discusses the conceptual framework.

4.9.2 THE CONCEPTUAL FRAMEWORK

The previous discussions revolved around the concepts of: (i) poverty reduction (Esposito & Chiappero-Martinetti, 2010:181; Donou-Adonsoua & Sylwester, 2016:82); (ii) entrepreneurship (Acs, Desai & Hessels, 2008:219; Akinbola, Ogunnaike & Tijani, 2013:7); (iii) the role of microfinance in poverty reduction (Addae-Korankye & Alex, 2012:138; Addo & Twum, 2013:9) as well as; (iv) the need for MFIs to adopt the appropriate credit risk management techniques that promote financial inclusiveness for the entrepreneurial poor (Ayayi, 2012:37; Baklouti & Abdelfettah, 2013:9).

It is appropriate to demonstrate how these concepts and the systems theory integrate in order to answer the main research question of the study. The literature reviewed so far lacks an integrated,consistent and coherent framework that addresses the credit risk management challenges of MFIs in the Greater-Accra Region of Ghana in their attempt to extend credit to the entrepreneurial poor,hence the conceptual framework discussed in the next section.

The underlying argument of the proposed framework is that, financial inclusiveness can be enhanced through the adoption of an integrated framework built on the implementation of an effective Credit Risk Management Policies (CRMP) of MFIs through the presence of Entrepreneurial Expertise(EE) of the poor, and the availability of the Legal and Financial Regulatory Regime(LRR) in Ghana, leads to a Sustainable Microfinance(SM) delivery and its eventual impact on Poverty Reduction(PR). The conceptual framework underlying this study is presented in Figure 4.5 below.

Figure 4.5: Conceptual Framework: CRMP, EE, SM and LRR relationship on Poverty Reduction (PR)

4.9.3 ELEMENTS OF THE CONCEPTUAL FRAMEWORK

4.9.3.1 Implementation of a Pro-Poor Credit Risk Management Policies

The mission of Microfinance institutions is to provide financial services to the entrepreneurial poor who are vulnerable and lack access to entrepreneurial capital.This makes MFIs to provide services that deepen their impact in terms of poverty reduction whilst focussing on the needs of the entrepreneurial poor (Addae-Korankye & Alex, 2012). However, the process of granting loans to the poor involves the risk of default that threatens the sustainability of microfinance institutions.

The risk associated with the poor has made many MFIs to upscale and commercialise their services by serving the non-poor who they believe are able to meet repayment terms and have the necessary collateral to secure their loans (Copestake, 2007; Jia, Cull, Guo & Mac, 2016). This is the dilemma in which microfinance institutions find themselves. The way out of this intricacy is a rigorous management of credit risk which embraces the poor rather than ignoring them. This means that MFIs have no choice but to carefully assess and manage microcredit risk.

Moreover, the use of a humane credit risk management methods such as group lending, acceptance of collateral substitutes and repayment incentives are ideal in promoting financial inclusiveness as well as making microfinance useful to the poor. Whatever the case may be, microfinance institutions cannot avoid or ignore risk, as this is a standard business practice. However, as stated earlier, microfinance risk management can constrain the ability of microcredit to achieve its desired goal. It is, therefore, essential that MFIs adopt credit risk management practices that do not unduly constrain the usefulness of it.

From the perspective of the conceptual framework above, to extend microcredit to the entrepreneurial poor demand that, MFIs implement effective credit risk management policies in the areas of risk identification, assessment, measurement as well as its management. (Ayayi, 2012:37; Baklouti & Abdelfettah, 2013:9).

The Board of Directors of an MFI must formulate effectively but pro-poor credit risk policies to be implemented by management. In this regard, microfinance credit risk management activities are designed to minimise the negative impact (cost) of uncertainty regarding possible losses (risks) and at the same time ensuring that the microcredit has a resultant positive effect on the beneficiaries. The process of microfinance credit risk management entails a systematic process of risk identification, assessment, measurement, and management of loss exposure faced by MFIs. The main aim is to minimise the negative effects of the risk (Goldberg & Palladini, 2010:10).

4.9.3.2 The Availability of Entrepreneurial Expertise of the Poor

Microfinance can only be useful to the poor if it is channelled through the venture creation process. (Abiodun, Tolulope, Rahman & Adeola, 2010:157; Khavul, 2010:58; De Haan & Lakwob, 2010:529). It is, therefore, to be ensured that loans given out to the poor are not diverted into other uses which might not bring a long-term benefit to the poor. However, the poor needs to have entrepreneurial skills to be successful in any venture creation process.

Chowdhury (2009:2) therefore argued that in the delivery of a microfinance service to help the poor out of poverty,the issuance of loan alone is not enough.But the poor needs to have 'skills, vision, creativity, persistence' and needs to be provided with general entrepreneurial training to succeed with microfinance. This implies that MFIs are supposed to make sure the poor are equipped with the necessary entrepreneurial training that is required to be successful in the venture creation process.

4.9.3.3 Availability of Effective Legal and Financial Regulatory Regime

In addition to implementing effective credit risk management policies and the provision of entrepreneurial expertise to the poor, there is the need for an existence of an effective legal financial regulatory regime which intervenes to control the excesses of MFIs in terms of the abuse of the vulnerable when they do occur.

To ensure that MFIs minimise the gap between demand and supply for microcredit to the poor, many governments in developing countries including Ghana have intervened by providing the legal framework that regulates the activities of microfinance institutions. In Ghana, microfinance activities are regulated by the

Non-Bank Financial Institutions Act, 2008 (Act 774). Also, the Bank of Ghana is mandated to have overall regulatory and supervisory authority in all matters regarding banking and non-banking financial institutions to ensure good quality of assets, solvency, interest rates, profitability and adequate liquidity of banks and microfinance institutions.

Therefore, Bank of Ghana plays a pivotal role in the operations of MFIs in regulating, supervising and directing their activities and credit systems to ensure that there is smooth and sound credit delivery to the poor (Bank of Ghana, 2001). What is expected is that Governments should take steps to ensure that regulations and the cost of complying with such regulations do not push the poor further away but rather promote financial inclusiveness (Hartarska & Nadolnyak, 2007; Anku-Tsede, 2014)

4.9.3.4 Sustainable Microfinance for Poverty Reduction

Poverty is said to be endemic in most developing countries (Vijayakumar, 2013:67; Adjasi & Osei, 2007:449; Haruna & Anawart, 2012:23). In these countries, it has also been established that there is inaccessibility to credit. It is also argued that the prevalence of poverty in these developing economies is partly attributed to the lack of access to credit making it difficult for the poor to be removed from the poverty trap (Ibtissem & Bouri, 2013:9). In effect, there has been a gap between demand and supply of credit and bridging this gap has been very challenging to the formal financial institutions (CGAP, 2010). In reality, the gap did not emanate because there is a shortage of credit to the poor, but the fact has been that the poor has not been considered creditworthy enough to access credit from these formal institutions.

It has also been argued that extending credits to the poor with the associated risks makes the credit delivery to the poor unsustainable. However, this thesis sought to bridge this gap on the premise that effective risk management practices and the provision of entrepreneurial expertise in terms of small business management and financial literacy can assist the poor to come out of the poverty trap. This would also ensure that MFIs can extend credit to the poor and still achieve financial sustainability.

4.9.3.5 Poverty Reduction

As reviewed earlier, the main idea underpinning the need for microfinance services is the reduction of poverty (Annim & Alnaa, 2013:19; Jia, Cull, Guo & Mac, 2016:17). Therefore, the assumption underlying this thesis is that, to ensure that the poor have access to credit, there must be effective and adaptable credit risk management practices geared towards the poor and backed by legal and regulatory framework and the availability of entrepreneurial expertise of the poor, leads to the provision of a sustainable credit to the entrepreneurial poor which eventually will have an impact on poverty reduction. In this regard, the impact of credit risk management practices through entrepreneurial expertise should lead to poverty reduction. Poverty reduction in this context means improved income, access to nutrition, shelter, quality healthcare, quality education, savings, and the ability to service loans and increase investments.

4.10 CHAPTER SUMMARY

Since global poverty remains a challenge that threatens human survival, the role of microfinance institutions in the drive towards poverty reduction cannot be over emphasised. The sustainability of microfinance institutions, therefore, is very critical. The rapidly growing supply of funds for micro-loans, the increasing competition in the microcredit markets, over-indebtedness among micro-entrepreneurs and the collapse of MFIs lead to a growing need for an effective pro-poor risk management framework.

Microfinance institutions can succeed in reaching to the poorest of the poor in a more effective way than formal financial sector by devising innovative risk management strategies, such as group lending, application of dynamic incentive systems, acceptance of collateral substitutes, adoption of regular repayment schedule and the provision of non-financial services such as business development and health education.

Microfinance is not suitable for everyone. Most importantly, entrepreneurial skills and ability are necessary to run a successful microenterprise. Microcredit may be inappropriate where conditions pose severe challenges to loan repayment. For example, populations that are geographically dispersed or have a high incidence of disease may not be suitable microfinance clients. In these cases, grants, infrastructure improvements or education and training programmes are more effective.

CHAPTER 5: RESEARCH METHODOLOGY

5.1 INTRODUCTION

This chapter is the premise upon which the study has been built and it provides an explanation of the methods employed for the study. The chapter also provides a further understanding of the research processes and how the data were collected for the study. The chapter begins with the preconception of the researcher and furthered with explanations of how the study was conducted. The main areas covered in this chapter includes the research paradigm, the research process, the problem statement, the research questions, the objective of the study, the study area, the unit of analysis, the study population, sampling, research instruments, data collection procedure, the data analysis method, reliability, and validity of data and finally, ethical considerations in this study.

5.2 RESEARCH DESIGN

A research design is a well-defined structure or frame within which a research is implemented (Burns & Grove, 2001). In other words, a research design is a rigid structure upon which a study is undertaken (de Vaus, 2001). According to Polit and Beck (2012), a research design is an overall plan for answering research questions to a study. Research design also serves as the adopted framework that is used to analyse a research question or a set of research questions to generate a reliable evidence (Bryman & Bell, 2011).

According to (Creswell, 2009), a research design involves four main areas of research namely ***philosophies****,* ***approaches*****,** ***strategies*** as well as the related ***methods*** which are adopted during the process of an enquiry. The relationship among these four main areas is that the research design helps the researcher to decide on the research philosophy which later informs the research approach to be adopted. Whilst the research approach, in turn, has a bearing on the chosen strategy and methods of undertaking a piece of study, the research method indicates a collection of various techniques and procedures for collecting and analysing data to generate evidence (Gill & Johnson, 2002; Saunders, Lewis & Thornhill, 2003).

From these definitions, research design can simply be said to be a blueprint used in conducting a research. Therefore, in selecting a suitable research design, the researcher must be guided by whether the chosen design will be effective in addressing the research question of the study.

5.3 RESEARCH PARADIGM

All research studies are guided by standards, principles and rules which must be followed accordingly in the conduct of a piece of research. It is these standards, principles and rules that are referred to as "research paradigm" (Kumar, 2011; Jeltje van & Vosselman, 2012). A research paradigm refers to the set of beliefs, practices and standards that regulate an inquiry into a phenomenon and provides researchers with guides for accomplishing a successful enquiry (Weaver & Olson, 2006). According to (Kumar, 2011;91), a researcher's chosen design is informed by the adopted research paradigm. Research philosophy forms a core aspect of a research paradigm. Four key research philosophies namely **positivism**, **Interpretivism, Realism and Pragmatism** are discussed below**.**

5.3.1 RESEARCH PHILOSOPHY

Research philosophy refers to a researchers' set of beliefs and assumptions about how research should be conducted in terms of its guidelines, principles, and research strategy (Burns & Burns, 2008). In general terms, the term denotes the nature of knowledge and how new knowledge is developed and acquired in that field (Saunders et a.l, 2009). The researcher's philosophy regarding a research is important because it determines the choice of a research approach, strategy as well as the methods adopted in conducting the whole research. According to Bryman and Bell (2011) and Gill and Johnson (2002), a research philosophy has four main elements namely; ***epistemology, axiology***, ***ontology,*** *and* ***the nature of human behaviour***.

Epistemology is a branch of research philosophy which deals with the sources of knowledge; it answers whether knowledge can, is or should be generated and acquired objectively or subjectively; and is the study of the criteria by which a researcher classifies what constitute or does not constitute acceptable knowledge (Creswell, 2014).

Axiology, on the other hand, refers to the researcher's own values in the research process and how this is likely to affect his choice among other alternative methods in generating an enquiry (Heron, 1996).

Thirdly, **ontology** is an aspect of research philosophy which involves the study of the nature of reality of knowledge. It considers whether a body of knowledge exist objectively or subjectively (Bryman & Bell, 2011).

Lastly, the **human behaviour** aspect of research focuses on some set of assumptions about the ontological differences that exist between social phenomena in social sciences and objects of investigation in natural sciences which are considered during the research process (Bryman & Bell, 2011; McAuley, Duberley & Johnson, 2007). It is important to emphasise that, any research philosophy adopted by a researcher in the research process has all these four aspects interwoven (Creswell,2014).

Broadly, there are four main research philosophies or paradigms namely positivism, interpretivism, realism and pragmatism (Saunders et al., 2009). Each of these is briefly discussed below.

5.3.1.1 Positivism

Positivism is a type of research philosophy which adheres to the belief that factual and acceptable knowledge can only be acquired through observation and measurement using the human senses. Positivism believes that the scientific process is the only way to learn and discover the truth about a research phenomenon. Positivist researchers believe that the scientific process is deterministic, mechanistic, methodical, as well as empirical which makes the researcher independent in the research process (Baker, 2003).

This philosophy believes that excessive human engagement in the research process can distort the facts and results. The researcher is therefore only limited to data collection and interpretation using an objective approach to generate results that are quantifiable and observable and lend themselves to statistical analyses (Remenyi, 1998; Bryman & Bell, 2011). Usually, the deductive approach is used in the enquiry process whereby a hypothesis is formed and tested to be confirmed or negated based on an existing theory (Gill & Johnson, 2002).

The main criticism against positivism is its lack of recognition that there is an ontological difference between researching a social phenomenon which is purely humanistic and conducting a scientific research which involves objects of investigation in the natural sciences. Unlike in the natural sciences, social sciences focus on human behaviour which needs to be investigated as to how it behaves the way it does and how it relates to the research results (Laing, 1967; Gill & Johnson, 2002).

Some other critics of positivism argue that it is a pretence to distance the study of a social phenomenon from its actors (Bryman & Bell, 2011). This implies that the actor's viewpoint is critical in understanding any study that concerns them. Therefore, social science cannot be understood totally be applying natural science principles but should be explained and interpreted from the contributions as well as the meanings attributed to it by the actors themselves.

In summary, positivist philosophy in research aims and values the demonstration of causality, objectivity, the use of deductive approach, independence of the researcher and the use of the scientific process, observability as well as measurability. The next section discusses the next research philosophy known as interpretivism.

5.3.1.2 Interpretivism

Interpretivism is an aspect of research philosophy which focuses on the details of a situation, the reality behind these details as well as the subjective meaning of issues or actions. This is also termed constructivism or constructionism (Blumberg et al., 2008:20; Bryman & Bell, 2011:22).

Interpretivism recognises the fact that there is an ontological difference between research in the natural sciences and research involving a social phenomenon (Weber,1947; Bryman & Bell, 2011). The interpretivism approach, therefore, emphasises that the social researcher needs to understand a research phenomenon from the point of view of the subject being studied (Saunders et al., 2009).

This implies that individual's actions are based on their interpretation and the understanding the social context in which they find themselves (Blumer, 1986; Bryman & Bell, 2011). This is because social situations can be as complex as society itself and researchers involved in a social research need to understand the contextual meaning of issues (Bryman & Bell, 2011).

Whiles interpretivism lends itself to a flexibility of research process and methodology, one major weakness of the interpretivism philosophy is that it is unlikely to generalise discoveries and research findings to a larger population since the contextual implication of such findings are unavoidable. Another criticism according to (Zikmund, Babin, Carr & Griffin, 2012) is that it allows researchers to become so immersed in the research process in such a way that, research outcomes becomes the views of the researcher instead of the reality. The research, therefore, becomes researcher-dependent and lacks verifiability and replicability.

In summary, Interpretivism emphasises subjectivity, the use of inductive approach, as well as stakeholder engagement in the research process.

5.3.1.3 Realism

Realism as a concept in research philosophy which entails the fact that, there is an objective reality of knowledge which is separate and entirely independent of the researcher's knowledge, mind, experience, perception and even the description of such a knowledge. It emphasises therefore that, the researcher should make an attempt to examine and understand this reality without contaminating it with human experience (Bryman & Bell 2011; Saunders et al., 2009) This implies that the method of data collection, analysis, and interpretation of data should be specific, replicable, hypothesised as well as predictable (Bryman and Bell, 2011).

5.3.1.4 Pragmatism

Pragmatism is a research philosophy which emphasises the fact that, philosophical concepts or research paradigms can only be accepted to be relevant if they support action. This means that the most relevant and result-oriented approach, strategy, and philosophy should be adopted in every piece of research (Creswell, 2014). This is because there are many ways of interpreting research phenomenon and the world at large and there is no single approach that has the ability to give the entire picture of a research problem.

Thus, the choice of one research paradigm such as positivism over interpretivism may not be practicable. Rather, there is the need to consider the research questions which underpins the research phenomenon under study and the researcher must determine which research approach or paradigm is feasible and will give the best result. This implies that researchers can combine both positivism and interpretivism position in conducting a single research depending on the nature of the research question to be answered. More so, pragmatism can adopt both qualitative and quantitative, deductive and inductive in a single research which in this sense can be both subjective and objective (Creswell, 2014; Saunders et al., 2009).

It has been pointed out that there is the need for researchers to focus on the research problem and should be able to determine the most relevant, practical, and necessary research paradigms, approaches, and methods to comprehensively understand the nature of the research problem to bring clarity to bear (Saunders et al., 2009; Creswell, 2014.). Mixed research methods are therefore underpinned by this pragmatic approach to research.

5.4 THE CHOICE OF AND JUSTIFICATION FOR RESEARCH DESIGN

Having discussed the various research paradigms above**,** it is important to state that due to the complexities associated with research studies, none of the paradigms can single-handedly meet and satisfactorily address all the requirements of any piece of research. Therefore, a combination of these paradigms is accepted in studying a phenomenon. In this research, both the positivism and interpretivism paradigms or the mixed method approach has been adopted.

Combining both paradigms provides a strong basis and ability to examine the impact of microfinance credit risk management practices of MFIs in the Greater-Accra Region of Ghana on poverty reduction through entrepreneurship. The mixed approach ensures that the researcher explored the research questions from different perspectives for robust outcomes.

According to Polit and Beck (2012), quantitative and qualitative research approaches are complimentary to each other and for that matter, they avoid the limitations of each approach. Creswell (2009) therefore argues that the greatest benefit of the combination of quantitative and qualitative research is that, each approach can compensate for the weaknesses of the other in the sense that mixed approach enhances the validity of the research results due to multiple complementary data used in the study.

Poverty issues are multi-dimensional in nature and neither the positive paradigm nor the interpretivism paradigm can be used alone to address a research of this kind. To achieve a robust outcome, the researcher followed a systematic and well-executed process. The processes involved in the study are explained in the following section.

5.5 RESEARCH PROCESS AND SIGNIFICANCE OF THE STUDY

The research study went through 17 stages starting from topic selection ("*impact of Microfinance credit risk management practices on poverty alleviation through Entrepreneurship: Insights from Microfinance Institutions in the Greater Accra Region of Ghana*") up to coming up with the final thesis report. The self-explanatory flowchart below (Fig 5.1) illustrates the stages involved in conducting the entire study.

Without going into much detail, suffice it to say that the factors that informed the decision in choosing this topic were the relevance of the study to the developmental agenda of the Ghana in terms of poverty alleviation; developing the SME subsector; and expanding the microfinance sector to address the economic marginalisation of the poor in the Ghanaian society (Agyapong, 2010; Akpalua, Alnaab & Aglobitse, 2012). This topic has also been very timely for this study especially at a time where access to finance has been one of the major problems for many small businesses in Ghana (Agyapong, 2010; Akpalua, Alnaab & Aglobitse, 2012).

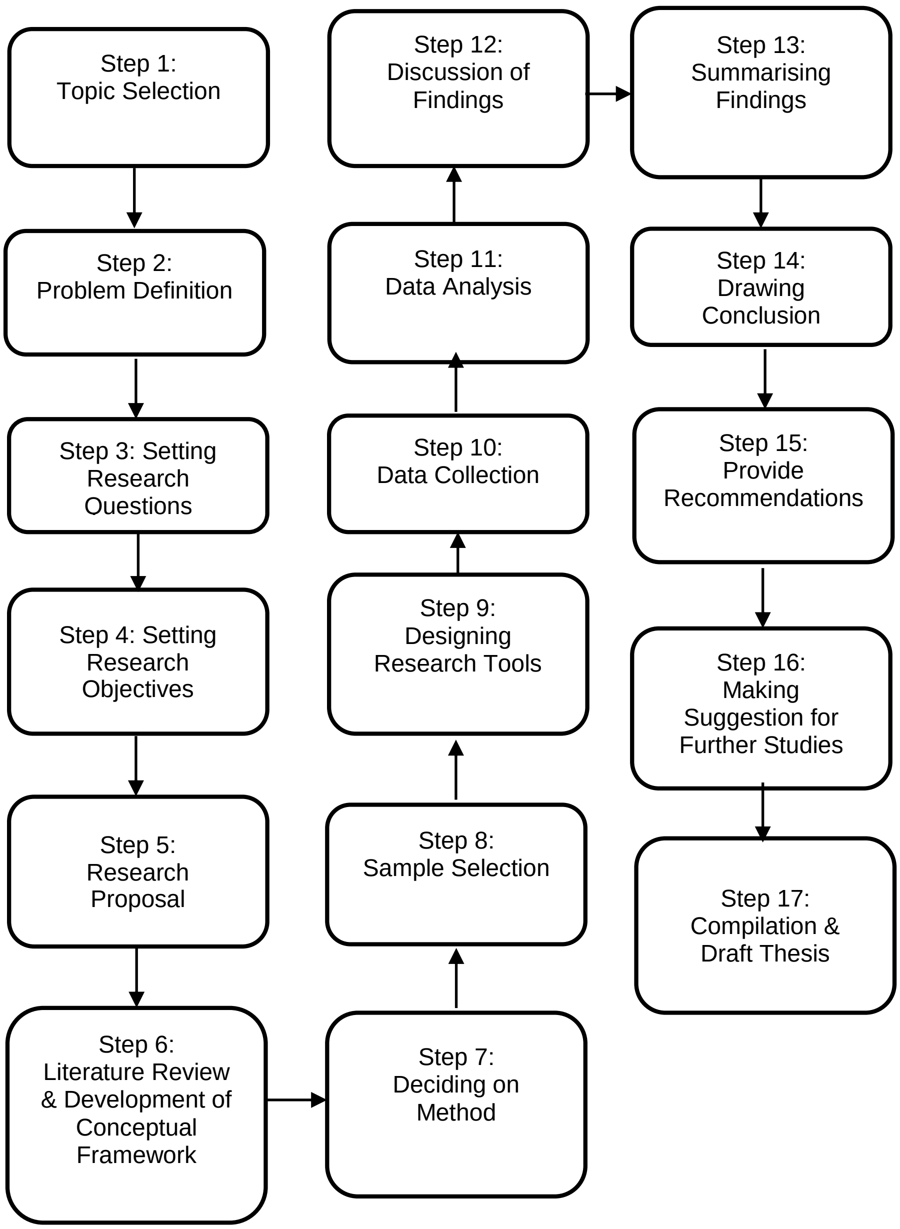


Figure 5.1: Research Process

Besides, the challenge of commercialisation of microfinance, ignoring the poor and upscaling of microfinance services to serve the non-poor and its attendant mission-drift is evident in Ghana (Copestake, 2007; Jia, Cull Guo & Mac, 2016). Clearly, the access gap currently experienced in Ghana is due to the inability of MFIs to design suitable risk management techniques that are pro-poor and takes into account the peculiar characteristics and vulnerabilities associated with the entrepreneurial poor. There is, therefore, the need to promote financial inclusiveness through the use of effective pro-poor credit risk management frameworks that enhances the capability of the entrepreneurial poor in the venture creation process through which poverty is reduced.

5.4 RECAPITULATION OF THE RESEARCH PROBLEM AND QUESTIONS

The problem and its background were fully presented in Chapter one. Just to recap, this study investigated the extent to which credit risk management practices of MFIs hinder the ability of microfinance as a tool for poverty alleviation in the Greater-Accra Region of Ghana. This problem statement led to the main research question: how do the credit risk management practices of selected regulated microfinance institutions impact the ability of microfinance to contribute to poverty alleviation through entrepreneurship in the Greater - Accra Region of Ghana? To answer this main problem, the following eight (8) specific research questions were formulated.

1. To what extent is microcredit reaching the poor in the Greater-Accra Region of Ghana?
2. To what extent are the poor in the Greater-Accra Region of Ghana who access microcredit utilising such financial resources for ‘entrepreneurial’ activity? In other words, are the poor in the Greater-Accra Region of Ghana who accesses microcredit really utilising such financial resources for ‘entrepreneurial' activity?
3. How effective is microcredit (or has microcredit been) in promoting ‘entrepreneurial’ activity among the poor in the Greater-Accra Region of

Ghana?

4. What is the microcredit default rates among the poor in the Greater-Accra Region of Ghana?
5. What are the main credit risks associated with the poor in the Greater-Accra Region of Ghana?
6. What are the main credit risk management techniques used by MFIs in the Greater-Accra Region of Ghana?
7. Which credit risk management practices of microfinance institutions inhibit microfinance to the poor in the Greater-Accra Region of Ghana?

To address these questions, the research design described below was followed.

5.5 THE RESEARCH DESIGN

In examining the impact of microfinance credit risk management practices of MFIs in the Greater-Accra Region of Ghana on poverty reduction through entrepreneurship, the study made use of both quantitative and qualitative research methods. The decision to combine quantitative and qualitative methods for this study was justified on the grounds that the researcher could explore the research questions from two different perspectives which lead to a broader understanding of issues relating to the topic. In effect, the researcher adopted the combination strategy due to the fact that it was best suited for addressing the issues of multi-dimensionality of poverty as well as the research questions in a balanced form.

For the purposes of this study, in some instances, a quantitative method was best suited as the research has a large focus on numbers and the use of statistical tools to analyse the data obtained from the questionnaire as well as the financial data. This strategy is supported by (Bryan & Bell, 2007:24) who referred to quantitative design as "*a research strategy that emphasises quantification in the collection and analysis of data*" Also, Allwood, (2012:1418) stated that quantitative research is an "inquiry into a social or human problem based on testing a theory composed of ‘variables’, measured with numbers, and analysed with ‘statistical procedures’, to determine whether the predictive generalisations of the theory hold true.

Also, the study employed the qualitative method to assess the views of the management of microfinance institutions on the impact of microfinance credit risk management practices on poverty alleviation through entrepreneurship in the Greater Accra Region of Ghana. The knowledge that is sought-after must be measured to answer the research problem hence the use of the qualitative method. Saunders et al. (2007:32) posit that qualitative research relates to the method of gathering a variety of empirical data through introspection, individual opinions, interviews, and observation to understand the subject under study or views of peoples on the subject under study.

5.6 THE STUDY AREA

The study took place in Ghana a country that has a population of 25.5 million (Ghana Statistical Service, 2010). Ghana shares boundaries with Burkina Faso from the North, Togo from the East, Ivory Coast from at the west and the Gulf of Guinea. As at December 2014, Ghana's Gross Domestic Product (GDP) was US$ 117 billion and per capita income of US$ 4,338. Ghana is divided into ten regions with a variety of ethnic groups (Ghana Statistical Services, 2014). Specifically, the study was conducted in the Greater Accra Region, with Accra as its capital.

The Greater Accra Region has the largest concentration of MFIs in Ghana representing 66% of the total of MFIs in Ghana (Bank of Ghana, 2014). The majority of selected MFIs have their head offices located in Accra, hence accessibility in terms of questionnaire administration and data collection was feasible. Also, policies and decisions regarding credit risk management policies are made at the head offices of the MFIs. Therefore, the selection of the Greater Accra Region for this study is well justified on the above grounds. Moreover, a large section of SMMEs are also concentrated in the Greater-Accra Region of Ghana hence the ability of the researcher to access them easily.

5.7 THE UNIT OF ANALYSIS

A unit of analysis is an important element from which data is obtained for a study. The unit of analysis is the main group or elements that are selected from the sample for a research study (Burns & Burns, 2008). In a research study, such as this, two different approaches were used to statistically test and verify the results of the study. The results of the study were obtained from Microfinance Institutions (MFIs) in the Greater Accra Region and loan beneficiaries of the respective selected MFIs in the study area.

5.8 THE STUDY POPULATION

Research population is the total number of units from which data can be collected and this includes individuals, artefacts, events, or organisations (Czaja & Blair, 1996). Burns and Grove (2003:21) define population as all the elements that meet the criteria for inclusion in a study. The population for this study consisted of risk managers, Credit Managers, and loan portfolio managers from each of the selected MFIs. These categories of the population were considered suitable for this study and the researcher is of a belief that they were best placed to provide relevant data for this study. The study population in the case of this research is all registered microfinance institutions that are licensed by the Central Bank of Ghana to provide microfinance services. According to the Bank of Ghana (2016), as at July 2016, the total number of licensed MFIs in Ghana was 385, out which 245 were in the Greater Accra Region.

5.9 SAMPLING

(Sekaran, 1992) wrote that sampling is the process of selecting a sufficient number of elements from a population so that by studying the sample and understanding the properties or characteristics of the sample, researchers would be able to generalise the properties of the sample to the population. In this regard, the following sections explain the sample frame, sampling methods, sampling procedure and the sample size employed for this study.

5.9.1 SAMPLING FRAME

A sampling frame is a list of all members of the population from which a sample is derived for a research study. According to the Bank of Ghana (2016:1) as at July 2016, there were three hundred and eighty-five (385) Tier 2 licensed MFIs that provide microfinance services to an estimated 15% of the Ghanaian total population. Out of the three hundred and eighty-five (385) Tier 2 licensed MFIs in Ghana, two hundred and fifty-four (254) were in the Greater Accra Region of Ghana. The MFIs are licensed to target the poor to ensure economic participation. For the purpose of this study, the sample frame was 254 Tier 2 licensed MFIs.

5.9.2 SAMPLE SIZE

Having identified the sample frame, the next stage is to determine the sample size for this study. Saunders, Lewis, & Thornhill, (2009) indicated that the size of the sample and the way in which it is selected has implication for the confidence level in the data analysed and to an extent to which generalisation can be made.
In determining the sample size, the following formula by (De-Vaus, 2002:32) was employed.

$$n = \frac{N}{1 + N(a)^2}$$

Where n = sample size, N = population, a = Confidence Interval. The confidence interval applied in this study is 93.3%. This is considered acceptable in social science. The determination of the sample size is as follows:

n =?

N = 501

a = 0.067 (1 – (93.3÷100)

$$n = \frac{N}{1 + N(a)^2}$$

$$n = \frac{254}{1 + 385(0.067)^2}$$

$$n = 141.1153242$$

$$\boldsymbol{n = 141}$$

From the above calculations, 141 MFIs was identified and involved in the study. From each of the 141 MFIs, the selected 1 credit risk manager/officer, 1 credit/loan manager/officer, 1 finance manager/officer and 1 operations manager/officer making 4 officers from each MFI. In total 378 officers and 1235 MFI loan beneficiaries were involved in the study. The determination of the sample size for the officers and loan beneficiaries are shown in Table 5.1 below.

Table 5.1: Sample Size Determination

Respondents	**Questionnaire Distributed**	**Questionnaire Retrieved**	**Response Rate**
MFIs Officers	564	**378**	67.02%
MFIs Loan Clients	1410	**1,235**	87.6%

5.9.3 SAMPLING METHOD

The study utilised simple random sampling in selecting the 141 MFIs and purposive sampling method in selecting the officers and loan beneficiaries. Thus, by virtue of nature of the topic, it was imperative to select those participants who can provide relevant data in addressing the research questions. Therefore, the study purposively selected only the credit risk manager/officer, credit/loan manager/officer, finance manager/officer and operations manager/officer from each selected MFIs.

The work of these categories of respondents in one way or the other are related to credit delivery and risk management practices. They were chosen for the reasons that by virtue of their positions and routine work, they are responsible for implementing credit and credit risk policies. Therefore, they are best placed to contribute accurate, relevant, and reliable data for this study.

5.9.4 SAMPLING PROCEDURE

The one hundred and fifty-one (141) MFIs were selected using simple random sampling method. Thus, the names, contact numbers and locations of the 254 MFIs in the Greater Accra region were obtained from the Bank of Ghana and the names of the MFIs were fed into a Microsoft Excel spreadsheet. With the help of the RAND function, random numbers were generated for all the 254 MFIs. The random numbers were then sorted in ascending order after which the first 141 MFIs were taken to be the final MFIs selected for the study. Thereafter, the researcher purposively selected the credit risk manager/officer, credit/loan manager/officer, finance manager/officer and operations manager/officer as well as MFI loan beneficiaries in each of the MFIs.

5.10 RESEARCH INSTRUMENTS

Data collection is an important exercise in any research activity. This is because inadequate or inaccurate data can have an adverse impact on the results obtained which can eventually lead to an invalid conclusion. The main research instruments employed for the data collection were both questionnaire and interview guide. According to Rowley (2014) questionnaires are one of the most widely used means of collecting data and it is the most appropriate method for a case study. For this study, a questionnaire was used because it helped to collect the relevant data from a large number of respondents in various selected locations. It also ensured that standardised data were collected from identical questions without the need to have face to face interaction.

Apart from these, it saves time and resources. The questionnaire also enabled the researcher to collect standardised information in respect of the same variables for everyone in the sample selected (Zahari, 2007). This makes the questionnaire an indispensable tool in gathering primary data about people, their behaviour, attitudes, opinions, and awareness of specific issues.

Based on the literature review and the conceptual framework, the questionnaires were designed to seek the views of the MFI officers and loan beneficiaries on the impact of microfinance credit risk management practices on poverty alleviation through entrepreneurship in Ghana. Two sets of questionnaires were designed one for the selected Risk Managers, Credit Managers, Credit Officers, and Portfolio Managers and the other for the MFI loan beneficiaries.

The questionnaires were designed in line with the main research objectives. The questionnaires were made up of closed and opened-ended questions. The questionnaire for the MFI officers was made up of four sections (Sections A to D). Section ‘A’ bothered on the personal data background of the respondents, section ‘B’ dealt with the extent to which microcredit is reaching intended beneficiaries in Ghana, and section ‘C’ assessed the credit risks of MFIs in Ghana while section ‘D’ ascertained the credit risk management techniques used by MFIs in Ghana. On the part of the MFI loan beneficiaries, the questionnaire consisted of two sections. The first section, ‘A’ dealt with the personal data of the respondents while section ‘B’ assessed the extent to which of microcredit impacted on the beneficiaries.

The 5-Likert Scale was used to measure the views of the respondents on the *impact of Microfinance credit risk management practices on poverty alleviation through Entrepreneurship: Insights from the Greater-Accra Region of Ghana*. The 5-Likert Scale used the indicators 1 = Strongly Disagree, 2 = Slightly Disagree, 3 = Not Sure, 4 = Slightly Agree and 5 = Strongly Agree. The results obtained from the 5-Likert Scale were then used to compute the weighted average for each variable. The weighted average formula used is given below:

$$\mathrm{WA} = \frac{\sum \mathrm{W}}{\mathrm{AN}} = \frac{5\mathrm{n}_5 + 4\mathrm{n}_4 + 3\mathrm{n}_3 + 2\mathrm{n}_2 + 1\mathrm{n}_1}{5\mathrm{N}} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{ eq. } 1$$

Where:

- WA is Weighted Average
- A is highest weight
- N is total sample size involved in the study
- n_1 represents number of responses to the indicator Strongly Disagree
- n_2 represents number of responses to the indicator Slightly Disagree
- n3 represents number of responses to the indicator Not Sure
- n_4 represents number of responses to the indicator Slightly Agree
- n_5 represents number of responses to the indicator Strongly Agree

In addition to the primary data collection instruments, secondary data were also sourced from the published annual reports and financial statements of the MFIs. This category of data was mainly in quantitative form. Other sources of secondary data collection for this study include journal articles and other relevant published research which were used for the literature review.

The secondary sources were used because they were documented evidence and readily available. These sources provided the background information for study and helped the researcher to have more insights on the topic under consideration in the study. These sources of data were less expensive to access in terms of time and money. It also afforded the researcher the opportunity to collect high-quality data, which would not have been of the same quality if the data were to be collected in its primary form. Saunders et al. (2009:78) has stated, “Secondary data are likely to be of higher quality than could be obtained by collecting empirical data”. However, some other researchers advised against secondary data being collected prior to primary data collection because the literature review might influence the researcher’s conceptualisation of the study.

Field and Morse (1996) stated that a literature review may mislead the researcher's ability to make accurate decisions in the study. However, the researcher believes that the literature review was necessary for providing guidance in identifying bias in previous studies. Furthermore, the reasons for employing this type of secondary data in this study were based on the views of Boslaugh (2007) who argues that, secondary data is economical and saves efforts, cost, time and helps to make primary data collection more specific since with the help of secondary data, researchers are able to make out what the gaps and deficiencies are and what additional information needs to be collected. It also helps to improve the understanding of the problem and provides a basis for comparison for the data that were collected by the researcher.

5.11 DATA COLLECTION PROCEDURE

To collect the relevant data for the study, the Greater Accra Region was divided into 5 zones based on the operational zones of the MFIs selected for the study. Five (5) data collection and entry assistants were employed. Each of the data collection and entry assistants handled one zone each comprising of 28 MFIs with exception of the central zone having 29 MFIs all totalling 141 MFIs. The appropriate number of the questionnaire were executed and retrieved from the MFIs. Prior to the data collection, the data collection and entry assistants were given a one-day training that took them through, data collection processes.

5.12 RELIABILITY AND VALIDITY

According to Morse, Barrett, Mayan, Olson and Spiers (2002:54) a research is a fiction and has no value if it is not based on validity and reliability criterion. They stated that validity and reliability are required in all research methods. Reliability refers to the extent to which a test or procedure produces similar results under constant conditions on all occasions. In this study, both internal and external validity were checked.

LeCompte and Goetz (1982) suggest that internal validity refers to whether there is a considerable match between the researcher's observations (data) and the theoretical ideas they develop. Internal validity is mainly a strength of qualitative research because, transcripts of interviews, especially if they are confirmed by the participants, provide a basis for checking the level of congruence between concepts and observations. External validity refers to the degree to which the findings can be generalised across a social setting (LeCompte & Goetz, 1982; Guba & Lincoln, 1994).

Guba and Lincoln (1999:43) stated that although the nature of knowledge in each of the quantitative and qualitative paradigm is quite different, all research must have "truth value", ''applicability'', consistency'', and "neutrality" to be rigorous. So, therefore, both paradigm needs specific criteria to be considered worthwhile. Within the quantitative paradigm, internal validity, external validity, reliability, and objectivity are the criterion to reach the goal of rigour while the qualitative research paradigm demands credibility, fittingness, audit ability, and conformability to be rigorous.

According to Guba and Lincoln (1999:44), verification strategies that ensure both reliability and validity of the data are activities such as ensuring methodology coherence, sampling sufficiency, developing a dynamic relationship between sampling, data collection and analysis, thinking theoretically and theory development.

To ensure the quality of validity and reliability, the researcher exhibited a great deal of carefulness and skill in the data collection, analysis, and presentation processes. Also, the data collected were subjected to thorough and critical examination to ensure that the quality of data collected is not compromised.

5.13 DATA ANALYSIS METHOD

The results obtained from the 5-Likert Scale were then used to compute the weighted average for each variable. Based on the results, the study employed the Vagias (2006) Anchor for measuring the respondents' opinions. Table 5.2 below shows the scale for measuring and interpreting the results obtained from the above calculations.

Table 5.2: Scale for measuring and interpreting respondents' views

Mean Range	**Interpretation**
0.81 – 1.00	Extremely High
0.71 – 0.80	Very High
0.61 – 0.70	High
0.51 – 0.60	Above average
0.41 – 0.50	Below average
0.21 – 0.40	Low
0.01 – 0.20	Very Low

Source: Vagias (2006:16)

The study employed the use of Statistical Package for Social Science (SPSS) which helped to generate tables and statistical diagrams like bar charts, pie charts and line graphs. Descriptive statistics was then applied in the narrations, interpretation and discussion of the results obtained. A regression analysis has also been used to determine the level of impact of microfinance credit risk management on poverty.

5.14 MEASUREMENT OF VARIABLES

In examining the impact of microfinance credit risk management on poverty, two main constructs were developed namely credit risk management and poverty reduction construct. Credit risk management was used as independent variable while poverty reduction was used as dependent variable. The dimensions for credit risk management were financial management skills (FMS), regular monitoring (RM), regular visits (RVIS), business management skills (BMS), flexible loan schedule (FLS) and training in the internal control system (TICS). The dimensions for poverty reduction were improved income (IMPIN), access to basic needs (ABN), create employment (CREMP), expand business (EXBUS), increased saving (SAVE), improved finances (IMFIN) and regular loan repayment (RPL).

5.15 ETHICAL CONSIDERATIONS

Ethical considerations have been paramount in the conduct of this research. According to Kumar (2011:243), ethical consideration should involve all the stakeholders in the research. These stakeholders include the research participants, the researcher, and the funding institution. Ethical research considerations such as seeking consent, seeking and collecting sensitive information, maintaining confidentiality, avoiding bias, avoiding incorrect reporting, the use of appropriate research methodology and the appropriate use of the research information has been practised throughout the course of this research.

This research study was done using the highest form of ethical considerations and standards bearing in minds that institutional information and data such as risk management methods, and product development tools is an asset and gives a competitive urge to MFIs, and such information will not be divulged to third parties.

There was no disclosure of respondent identities and an informed consent will be sought in all cases.

5.16 CHAPTER SUMMARY

The chapter has so far explained the research design adopted for this study and these were positivism and interpretivism approaches. The research processes that were followed were also explained. The chapter presented the problem statement and the research questions, as well as the objectives, were outlined. The study area, as well as the reasons for selecting the area, was given in this chapter. The chapter explained the unit of analysis and the study population. The sampling methods and procedures for selecting the target population were also explained. To collect relevant data for this, the researcher utilised questionnaire and interviews as the main research instruments. The justifications for choosing these tools were explained in this chapter. The procedures for data collection were explained and in addition to these, the chapter also explained the reliability, validity, ethical issues, and the data analysis method employed for this study.

CHAPTER 6: FINDINGS AND DISCUSSIONS

6.1 INTRODUCTION

In the previous chapter, the methods employed in conducting this study were explained. This chapter presents a summary of the empirical findings of the survey of MFIs and microfinance beneficiaries in the Greater-Accra Region of Ghana. The discussions of the findings are supported by other empirical studies in similar research endeavour for the purposes of confirmation and reliability.

The main issue under consideration in this chapter is to find out how credit risk management practices of MFIs have impacted on microfinancing the poor for poverty alleviation through entrepreneurship in the Greater Accra Region of Ghana. In addressing this key issue, the chapter analysed and discussed the extent to which microfinance is reaching the poor, the credit risk management techniques used by the MFIs, and the inhibition of microfinance to the poor using inappropriate credit risk management methods in the Greater Accra Region of Ghana. The chapter begins with the analysis and discussion of results obtained from the key officers of MFIs involved in this study, followed by the discussion of the results from the MFI clients.

6.2 RESPONSE RATE

The data used in this chapter were obtained from two categories of respondents. Thus, key officers of MFIs at one side and beneficiaries of microcredit. Two sets of semi-structured questionnaires were each administered to the key officers of MFIs and beneficiaries of microfinance in the region. The key officers of the MFIs involved in the study were made up of credit risk managers/officers, credit/loans managers/officers, finance managers/officers and operations managers/officers. One set of semi-structured questionnaire were administered to 564 key officers of the MFIs. Out of the 564 questionnaires, 378 representing 67% response rate were retrieved as at the end of the survey period.

With regards to the beneficiaries of microfinance, 1410 questionnaires were administered out of which 1,235 were retrieved constituting 87.6% response rate. According to Hamilton (2009), face-to-face survey questionnaire with a response rate of 60% to 65% is considered marginally good, 70% is considered reasonable, 80% is good and 90% is excellent. Therefore, the 67% and 87.6% response rate achieved is considered good to produce quality results as stated by the International Science Foundation (2011), that, a higher response rate in survey produces reliable results. Also, Groves (2006) stated that a higher response rate is an indicator of quality and adequate research results.

The high response rates were achieved due to the measures put in place by the researcher. Thus, the business premises of respondents were visited for the questionnaires to be completed. Respondents were also provided with adequate information regarding the purpose of the questionnaire, how the results obtained would be used and were also assured of anonymity and confidentiality of their involvement in the study. These measures contributed greatly to the high response rates. Table 6.1 below summarises the response rate from the survey.

Table 6.1 Response rate

Type of Respondent	Number of Questionnaire Administered	Number of Questionnaire Retrieved	Response Rate	Variance
MFI	564	378	67%	33%
Microcredit Beneficiaries	1,410	1,235	87.6%	12.4%
	1,974	**1,613**		361

6.3 DEMOGRAPHIC CHARACTERISTICS OF OFFICERS OF THE MFIS

This section analyses the demographic data of the MFI respondents involved in this study. The first part of the analysis dwelt on the gender distribution of the respondents, followed by age, qualification, job position and the number of years the respondents have been in the microfinance industry.

The second part looked at the staff strength of the MFIs and the main sources of funding. The analysis of the demographics of the respondents has been considered relevant such that it provides a better understanding of the calibre of the respondents involved in the study. It also helps to give credence to the reliability of the data obtained from them. Issues of microfinancing the poor for poverty reduction fall under the purview of the officers of the MFIs. Therefore, knowing their personalities is most appropriate for this study.

According to the questionnaire results obtained from the respondents, 269 out of the 378 respondents were males constituting 71.2% while females represented 28.8% (109) of the respondents (Table 6.2).

Table 6.2 Gender distribution

Gender	**Frequency**	**Percent**	**Valid Percent**	**Cumulative Percent**
Male	269	71.2	71.2	71.2
Female	109	28.8	28.8	100.0
Total	**381**	**100.0**	**100.0**	

Table 6.2 suggests that key positions in the MFIs are dominated by males. This finding supports the argument that minority of females occupy senior management positions in the financial services sector; a clear manifestation of dominance of men over women in relation to career progression to higher levels of leadership in many financial institutions as suggested by the World Economic Forum (2014) who

observed that globally, women constitute about 60% workforce in the financial services sector but only 19% ever progress to senior leadership ranks.

Table 6.3 shows the age distribution of the respondents. It shows that majority of the respondents representing 65.3% were in the ages of 41 to 50 years with 34.7% being more than 50 years. None of the respondents is below the age of 40 as shown in Table 6.3, an indication that the respondents are above the youthful ages. According to the Ghana Statistical Service (2010), only 1% of the youth (ages between 15 to 35 years) in Ghana are employed in the financial services sector.

Table 6.3 Age distribution

Years	Frequency	Percent	Percent	Cumulative Percent
51+	131	34.4	34.7	34.7
41 - 50	247	64.8	65.3	100.0
Total	378	99.2	100.0	

From **Table 6.4** below, the majority of the respondents representing 51.1% had Master's degree, followed by 44.4% having professional qualifications such as Institute of Chartered Accountants Ghana (ICAG), Association of Chartered Certified Accountants (ACCA), Chartered Institute of Management Accountants (CIMA) and Chartered Institute of Bankers (CIB).

The results as illustrated in Table 6.4 also indicate that only 4.5% of the respondents had first degree. The generality of these results gives an indication that majority of employees in the top most level of management in MFIs have higher educational qualifications suited for their jobs.

Table 6.4 Highest qualification

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	First Degree	17	4.5	4.5	4.5
	Master's Degree	193	50.7	51.1	55.6
	Professional	168	44.1	44.4	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

Having examined the highest educational accomplishment of the respondents, the next step is to find out the positions held by the respondents and the number of years they have been working in the MFIs. According to the results shown in Table 6.5 below, 32% of the respondents were Credit/Loan officers, followed by 24.6% being finance officers/managers and 16.1% were credit risk officers. The others are operation officers (11.6%) and other officers (15.6%) such as loan monitoring and evaluation, loan portfolio officers and field officers. Educational attainments, skills development, and appropriate incentives for employees of MFIs have a significant impact on the quality of credit management and credit risk management.

This view is evident in Addo (2014) where it was found that educational and skill levels of staff of microfinance companies can lead to improved service quality, loans management quality and increased supervisory and regulatory compliance which will eventually impact on the survival of MFIs. It is, therefore, imperative for MFIs to pay particular attention to educational attainments of employees during recruitment and selection processes.

Table 6.5 Position of officers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Credit risk officer	61	16.0	16.1	16.1
	Credit/Loans officer	121	31.8	32.0	48.1
	Finance officer/manager	93	24.4	24.6	72.8
	Operations manager	44	11.5	11.6	84.4
	Other	59	15.5	15.6	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

With regards to the number of years the respondents had been working in the microfinance services industry, the results as shown in Table 6.6 indicate that 71.7% of the respondents had been working in the industry for 5 to 10 years. Also, it was revealed that 22.5% of the respondents had been with their respective microfinance firms for more than 10 years while 5.8% had less than 5 years working experience in the microfinance services industry.

From these results, it is obviously indicative to conclude that majority of the microfinance officers involved in this study have substantial and rich experience in microfinancing. This goes to support the reliability of the data obtained for this study. As indicated before, the quality of human resources possessed by MFIs has a resultant effect on the operations of the MFIs. Evidence to support this view can be found in Addo (2014) where it was revealed that experience of microfinance workforce tends to significantly impact on the performance and productivity of the workforce.

Table 6.6 Work experience with MFIs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5 years	22	5.8	5.8	5.8
	5-10 years	271	71.1	71.7	77.5
	11-15 years	85	22.3	22.5	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

Table 6.7 below shows that 52.4% of the respondents stated that their companies have between 50 to 100 employees, and 26.7% said their companies have more than 100 employees while 20.9% stated they have less than 50 employees. An observation made by the researcher indicate that those MFIs that have more employees are the ones that have more branches across the country.

Table 6.7 Number of staff

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	9 to 49 employees	79	20.7	20.9	20.9
	50 to 100 employees	198	52.0	52.4	73.3
	101 to 150 employees	101	26.5	26.7	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

6.4 SOURCES OF FUNDING FOR MFIS

The study also examined the main sources of funding for the MFIs and according to the results as illustrated in **Table 6.8** below, the sources for funding the MFIs are clients' deposits representing 41.3%, internally generated funds (IGFs) which the 23.8%, followed by bank loans with 19.6%. The rests were shareholders' equity (7.1%) and other sources such as venture capital funds, limited partnership, individual and institutional investors.

From the above analysis of the sources of funding for MFIs, clients' deposits appeared to be the major source of financing for the MFIs. It must be noted that the operations of MFIs are regulated by the NBFIs Act, 2008 (Act 774) and the Banking Act, 2004 (Act 673) as revised by Act 738. By the provisions of these acts, MFIs are authorised to accept deposits and savings from the public.

According to Act 774, acceptance of a single deposit shall not exceed 5% of the paid-up capital of the microfinance company. This, therefore, makes one ask whether the use of client's deposits as the main source funding for MFIs is an effective means of funding. Certainly, MFIs cannot rely mainly on clients' deposits for funding. This was why the results of this study showed that the MFIs also make use of IGFs, Bank Loans and shareholders' funds among other funding sources even though insignificant. What is very important in this case is to maximise and diversify funding sources for MFIs. MFIs as Tier 2 institutions are permitted to accept deposits as well as supplement this with bank borrowing, loans from donor agencies and from domestic and foreign institutions.

What is important for MFIs is to diversify their funding sources progressively and strategically considering the cost of using such sources of funding to avoid overdependence on clients' deposits.

Table 6.8 MFIs main sources of financing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Internally Generated Funds	90	23.6	23.8	23.8
	Shareholders' Funds	27	7.1	7.1	31.0
	Bank loans	74	19.4	19.6	50.5
	Clients' deposits	156	40.9	41.3	91.8
	Others	31	8.1	8.2	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

6.5 THE EXTENT TO WHICH MICROCREDIT IS REACHING THE POOR IN GHANA

This section examined the extent to which MFIs in Ghana are reaching out to the poor in the society. In achieving this goal, the study investigated the categories of clients served based on their poverty levels, the outreach of the MFIs in terms geographical outreach, and the extent to which the MFIs are meeting the poverty needs of the poor.

6.5.1 TYPES OF CLIENTS SERVED BASED ON POVERTY LEVELS

According to the results, as seen in **Table 6.9**, 34.9% of the respondents stated that the majority of clients being served by their institutions are those classified as the moderately poor in the society. This is followed by 28.6% who stated that most their clients are the extremely poor and 20.4% said the majority were vulnerable poor while 16.1% stated non-poor.

Reaching the poor in the society is one of key operational policy objectives of MFIs. The finding that MFIs in the Greater-Accra Region are serving the moderately poor support the study of Aguilar (2006) who classified the poor into three main groups namely, first terciles, second and third terciles. The terciles were then classed as “*very poor*” (lowest), “*moderately poor*” (middle) and “*less poor*” (highest). The findings of Aguilar (2006) were that 35.4% of the household respondents were “*moderately poor*”, 22.5% were in the “*very poor*” group and 41.1% were in the “*less poor*” category.

Poverty classifications by the Ghana Statistical Service (2014) are done in two categories namely absolute and *extreme poverty levels*. Absolute poverty is measured in the upper poverty line pegged at GH¢1,314 per annum and the extreme poverty level is measured with the lower poverty line at GH¢792.05 per annum. These are the minimum amount of income needed annually by an individual to meet basic needs such as food, clothing, and other expenditure on non-food consumption.

Based on these classifications, it is estimated that 24.2% of the Ghanaian population live within the absolute poverty level. Table 6.9 below illustrates the results on the categories of the poor in terms of poverty levels. The expected situation is that MFIs are supposed to be gravitating towards the poor in terms of their services rather than they serving the non-poor who might not need a microfinance service or have alternative sources of funding for their MSMES.

Table 6.9 Type of MFI clients

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Extreme poor	108	28.3	28.6	28.6
	Moderate poor	132	34.6	34.9	63.5
	Vulnerable non-poor	77	20.2	20.4	83.9
	Non-poor	61	16.0	16.1	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

6.5.2 BRANCH NETWORK

With regards to the number of branches operated by the MFIs, the results as found in the **Table 6.10** below shows that 87% of the respondents stated that their companies have less than 20 branches while 13% have more than 20 branches.

It must be noted from these results that the number of branches operated by MFIs has an impact on the extent to which the MFIs reach out to the poor.

In Ghana, the opening of branches by MFIs is subject to a regulatory requirement. Thus, Tier 2 institutions must meet higher capital requirements determined by the Bank of Ghana. MFIs must also maintain 10% capital adequacy and seek approval from Bank of Ghana to establish a branch. This implies that the increase in the outreach of microfinance services is limited. This is due to the current regulatory regime of the microfinance sector which seeks to control the abuse of clients' deposits in branch expansion. However, the expectation is that the currently regulatory regime does not unnecessary discourage and limit the expansion drive of MFIs to the rural areas in their bid to support the entrepreneurial poor.

Table 6.10 Number of branches

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 20	329	86.4	87.0	87.0
	20 to 50	49	12.9	13.0	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

6.5.3 GEOGRAPHICAL SPREAD AND OUTREACH OF MFI ACTIVITIES

Even though the selected MFIs are in the Greater-Accra Region, the study investigated which other regions they extend their services to apart from the Greater-Accra Region. As noted in the literature review, Tier 2 MFIs can open branches in any part of Ghana.

According to the results (see Table 6.11), the majority of MFIs are more predominant in the Greater Accra region but less represented in the three Northern regions, Brong Ahafo and Volta regions. For instance, 54.2% of the MFIs operate in the Greater Accra region, followed by Ashanti region with 18% and Western region (11.1%). Volta region had 1.9 %, and each of the three Northern regions and Brong Ahafo Region had below 2% MFI representation.

Table 6.11 Region of operation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Greater Accra	205	53.8	54.2	54.2
	Central	21	5.5	5.6	59.8
	Eastern	16	4.2	4.2	64.0
	Western	42	11.0	11.1	75.1
	Volta	7	1.8	1.9	77.0
	Ashanti	68	17.8	18.0	95.0
	Brong Ahafo	5	1.3	1.3	96.3
	Northern	5	1.3	1.3	97.6
	Upper East	5	1.3	1.3	98.9
	Upper West	4	1.0	1.1	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

These results seem to suggest that most of the MFIs in Ghana are found in the capital city. This explains why out of the 385 licensed MFIs in Ghana, 254 constituting 66% are predominant in the Greater Accra Region. Furthermore, the presence and dominance of MFIs in the Greater Accra and Ashanti regions also shows why those two regions recorded the lowest incidence of poverty level while the three Northern regions recorded highest estimate of poverty (Ghana Statistical Service, 2014).

The geographical spread of MFIs across the country plays an important role in achieving high microfinance outreach. Geographical reach is considered as one of the possible solutions to the dilemma of identifying and reaching out to the poor.

Table 6.12 below also show that majority of the MFIs are mainly operated in the urban area. For instance, 82.5% of the respondents stated that their companies are more operational in the urban areas which imply that the rural areas are less reached. This situation poses a problem of using microfinancing as a tool in poverty reduction. This is because the incidence of extreme poverty is high among rural dwellers in Ghana.

For example, Ghana Statistical Service, (2014) Living Standard Survey, indicated that poverty rate among the rural population was estimated at 43% of the national poverty line. This implies that MFIs are not doing much in terms of their outreach to the rural areas of Ghana where poverty is most endemic.

The researcher attempted to find out why MFIs are concentrated in the city rather that expanding their services to the rural areas, especially to the three Northern Regions. in addressing this issue, the researcher asked the respondents to state the reasons for the MFIs operating in the selected areas of operation.

The main reasons that were stated for the dominance of MFIs in the urban areas were that operating in the rural areas is not cost effective as there are inadequate infrastructure, facilities, and other resources to support operational activities. This is evident in Murray and Boros (2012), which states that until the infrastructural base of the rural areas is improved, micro-entrepreneurs are not likely to contribute effectively to economic development as well as benefit from the various services that are available in the country. Therefore, Debrah (2013:59) has suggested that the high levels of poverty, particularly in the rural areas, demands urgent intervention from all stakeholders.

Adjasi and Osei (2007:67) has proposed strategies in reducing Ghana's poverty by stating that, there is the urgent need to develop Ghana's socio-economic infrastructural base which is necessary for improving the living standards of the population, particularly the three northern regions where poverty is endemic and generational. He also pointed out that the agricultural sector needs to be modernised and improved to create jobs for the teeming unemployed youth in the rural areas.

From the foregoing, it is imperative to reiterate that, much attention is needed to encourage more presence of MFIs in the rural areas of Ghana to help the poor in developing entrepreneurial opportunities. Ensuring this would contribute significantly to achieving the SDGs by 2030.

Table 6.12 Area of operation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Urban	312	81.9	82.5	82.5
	Rural	21	5.5	5.6	88.1
	Both	45	11.8	11.9	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

6.5.4 CLIENTS TARGETED AND GENDER DISPOSITION

In understanding the outreach of MFIs in Ghana especially the extent to which they are reaching out to the poor, it was also important to find out the types of clients being targeted by the MFIs as well as the gender disposition of the targeted clients. In this regard, the respondents were asked to state the type of clientele that constitutes majority being served by the MFIs. According to the results illustrated in **Table 6.13**, the majority of clientele being served by the MFIs were individual SMMEs (27.2%), followed by government employees (23.5%), women groups (21.4%). The rest were associations or groups (16.1%) and private sector employees (11.6%).

Table 6.13 Categories of clients served

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Government employees	89	23.4	23.5	23.5
	Private sector employees	44	11.5	11.6	35.2
	Associations	61	16.0	16.1	51.3
	Individual SMEs	103	27.0	27.2	78.6
	Women groups	81	21.3	21.4	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

With regards to gender disposition, the results indicate that most the clientele of MFIs were females. For instance, from **Table 6.14** below, 61.6% of the respondents stated that females constitute the majority of the clients while the remaining 38.4% were of the view that males constituted the majority.

Further observations made by the researcher indicated that the male category of the clientele were the public-sector employees. From the observations, the public-sector employees are those on the Controller and Accountant General's payroll where loan repayments are deducted directly from their salaries and transferred to the MFIs. The finding that majority of clients are females is evident in Khan and Rahman (2009:47) where it was found that women constitute 98% of clients of the Grameen Bank which has become one of the best-known model MFI in the history of microfinance.

Table 6.14 Categories of gender targeted

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	233	61.2	61.6	61.6
	Male	145	38.1	38.4	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

6.5.5 MICROFINANCE INSTITUTIONS REACHING OUT TO THE POOR

As stated before, the main objective of microfinancing is to alleviate poverty through the provision of microcredit to the poor. To find out more about this, the respondents were asked whether they agree with the assertion that microfinance is most effective lending for the poor in the Greater-Accra Region of Ghana. The results showed that, in response to this, all the 378 respondents strongly agreed with the assertion. This supports the view of Mahmood, Hussain, & Matlay, (2014) that, microfinance is one of the most important tools in supporting the poor in their income-generating activities to reduce their poverty.

The above led to a further interrogation into whether MFIs in the Greater-Accra Region of Ghana are really reaching out to the poor. **Table 6.15** below shows that 81% of the respondents strongly agreed that MFIs in the Greater-Accra Region of Ghana are really reaching out to poor while 12.4% strongly disagreed to the view.

Table 6.15 MFIs reaching out to the poor

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	47	12.3	12.4	12.4
	Slightly disagree	24	6.3	6.3	18.8
	Strongly agree	306	80.3	81.0	99.7
	Slightly agree	1	.3	.3	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

From the above findings as shown in Table 6.15, it is revealed that the MFIs are reaching out to the poor. However, the dominance of the MFIs in the urban areas defeats the claim of reaching out to the poor. This is because, if 62% of the total population reside in the rural areas (Ghana Statistical Service, 2014) but only a few proportion of the MFIs are operating in the rural areas, then much is expected from the MFIs to address the issue of alleviating rural poverty.

Furthermore, the dominance of MFIs in the urban areas also justify the reason poverty levels are low in the urban areas than in the rural areas. According to the Ghana Living Standards Survey Report by the Ghana Statistical Service, “extreme poverty is a rural phenomenon, with as many as over 1.8 million persons living in extreme poverty in rural areas. The report also found that the incidence of extreme poverty is less existed in urban areas, with the Greater Accra having only 0.9% of the national incidence of extreme poverty (Ghana Statistical Service, 2014).

From the above findings, it is implied that there is the need to encourage more microfinance activities the rural areas. This is necessary because of the existence of the huge incidence of extreme poverty in the rural areas of Ghana.

Therefore, if microfinance is made adequately available to the rural poor at terms and conditions which are reasonably appropriate, it will contribute significantly to reducing extreme poverty in the rural areas and impacting positively on the overall national poverty reduction drive by the government (Adjasi & Osei, 2007;Debrah, 2013).

The results in **Table 6.16** also explains why the activities of MFIs are not dominant in the rural areas of Ghana. Interrogating this issue further, the researcher inquired about the selection criteria for their operational areas. Thus, if this selection is based on those areas that have a higher incidence of poverty. In response to this, the majority of respondents (81.7%) were of the view that even though this is considered in selecting their operational zones, it is not a primary criterion.

Table 6.16 client selection criteria based on poverty reduction

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No explicit criteria	69	18.1	18.3	18.3
	Consider but not primary	309	81.1	81.7	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

From the results shown in Table 6.16 above, it is well-established that decision on operational zones is not based on poverty levels of the people. Indeed, the over-dominance of the MFIs in the urban locations re-emphasize this finding. However, it was found out that, the MFIs measure the poverty levels of its clients (Table 6.17). This finding is consistent with the study of Bessell, (2015) that MFIs need to measure poverty levels of their clients using both household income and consumption data.

Table 6.17 measuring poverty levels of clients

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	378	99.2	100.0	100.0
Missing	System	3	.8		
Total		381	100.0		

Table 6.18 shows that the main methods used in measuring the poverty levels of clients of MFIs are household per capita income (49.7%), household per capita expenditure (28.8%) as well as employment status (10.1). This finding is also consistent with the measurement of income poverty which was previously discussed in the literature (Esposito & Chiappero-Martinetti, 2010).

Table 6.18 Method of measuring poverty levels of clients

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Household income	188	49.3	49.7	49.7
	Household expenditure	109	28.6	28.8	78.6
	Employment status	38	10.0	10.1	88.6
	Others	43	11.3	11.4	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

6.5.6 MEETING THE PRODUCTIVE NEEDS OF CLIENTS

Having found out the methods used by the MFIs in measuring the poverty levels of clients, it also important to find out whether the MFIs are able to meet the productive needs of their clients. In addressing this issue, the researcher asked the respondents whether the institutions provide loans specifically tailored to clients' productive needs. The outcome from the questionnaire results as seen in **Table 6.19** which shows that all the respondents were of the view that the MFIs provide loans that meet clients' productive needs.

Table 6.19 Loans tailored to meet productive needs of clients

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	378	99.2	100.0	100.0
Missing	System	3	.8		
Total		381	100.0		

Further to this, it was also revealed in Table 6.20 that 60.1% of the respondents were of the view that the loans provided by the MFIs to their clients always go into entrepreneurial activities. However, 39.9% of the respondents stated otherwise.

Further field investigation revealed that these categories of the clients whose loans do not go into direct entrepreneurial activities are some of the government employees and other private sector employees (see Table 6.13) who seek mostly consumer loans. Some of these loans are used to acquire home appliances, payment of school fees and household consumables. It is known that the poor may not only need working capital loans, but they may need a broad range of financial services that improves the general well-being of the individual (Helms, 2006; Mahmood, Hussain, & Matlay, 2014).

However, the question that arises is whether these categories of clients of the MFIs (government employees and private sector employees) can be said to be poor. Certainly, this cannot be the case as confirmed by the results in Table 6.20 below where 39% of loan beneficiaries do not put their loans into any entrepreneurial activity.

Table 6.20 injection of loans into entrepreneurial activity

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	227	59.6	60.1	60.1
	No	151	39.6	39.9	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

It must be noted that the provision microloan for domestic consumption is a short-term measure of reducing poverty. What is important is supporting borrowers in exploiting entrepreneurial opportunities through microfinance which eventually reduces their poverty.

This argument is in line with (Mensah, 2010:139) that, old fashioned strategies such as grants and aid supports,free housing that is offered to the poor, even though help reduce poverty in the short term does not address the root causes of poverty, hence cannot end poverty, rather empowering the poor especially in the provision of quality entrepreneurial education that can help them generate their own income may be an essential approach to eradicating poverty.

The results from the survey also revealed that all the respondents were of the view that their institutions identify the needs of their clients and potential clients through field staff. Also, the results also indicate that all the respondents strongly agree that, the provision of financial services to the informal sector greatly impacts on the entrepreneurial activity of the poor in the Greater-Accra Region of Ghana and in the creation of jobs (Table 6.21).

This goes to support the findings of Dalglish (2008) that microfinance provides an opportunity for the poor to set up small businesses and that small businesses are increasingly recognised as the major contributor to income and employment generation and by implication a contribution to poverty reduction especially in the developing world (Dalglish, 2008:55).

Table 6.21 Loans effectively promote entrepreneurial activity

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	378	99.2	100.0	100.0
Missing	System	3	.8		
Total		381	100.0		

6.6 CREDIT RISK OF MFIS IN THE GREATER-ACCRA REGION OF GHANA

The study has so far examined the extent to which MFIs are reaching out to the poor. In reaching out to the poor, MFIs provide the poor with suitable microcredit products which comes with some levels of risk due to the vulnerability that is associated with the poor. One of the major risks threatening the sustainability of all microfinance institutions today is the risk of default technically known as credit risk (Ayayi, 2012).

This same risk prevents MFIs in the Greater-Accra Region from extending their services beyond the urban areas to the rural areas particularly the three Northern Regions of Upper East, Upper West and the Northern Region (See Table 6.12

above). This section, therefore, examines the credit risk related issues of the MFIs involved in this study.

6.6.1 CREDIT APPLICATION SUCCESS RATE

From Table 6.22 below, 32% of the respondents stated that 30% to 49% of the applicants for credit facilities succeed in acquiring the loan. This is followed by 24.1% of the respondents who said more than 70% credit facility applicants end up securing loans while 23% stated that 50% to 69% are successful in getting approvals for credit facilities. Also, 11.5% of the respondents stated that 10% to 29% are able to get credit approval. From these results, it can be said that majority of application for credit facilities get approval.

Table 6.22 rate of loan application approved

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 10%	35	9.2	9.3	9.3
	10% to 29%	44	11.5	11.6	20.9
	30% to 49%	121	31.8	32.0	52.9
	50% to 69%	87	22.8	23.0	75.9
	70% and more	91	23.9	24.1	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

6.6.2 FACTORS AFFECTING THE FINANCIAL SUSTAINABILITY OF MFIS

The next is to find out whether, in addition to the loans provided, the borrowers are provided with human capacity development to reduce loan defaults. In response to this question, the results found that; all the respondents indicated that their institution offer to their client's training aimed at improving their capability of using the loan as efficient as expected. The only category of clients who do not benefit from any capacity development training are the salary workers who are offered consumer loans. The results also showed that all the respondents agreed that, the growth trend of loan default rate among MFIs in the Greater-Accra Region of Ghana endangers the financial sustainability of microfinance institutions.

According to the results, all the respondents stated that more than 70% of their borrowers pay back their loans successfully. This implies that 30% or less of their borrower's default in paying back their loans. It was observed that MFIs who have flexible loan repayment structure observe higher recovery rate than those MFIs with rigid repayment structures.

This is in line with Nikhil (2009:195), who indicated that one strategy that can be used in managing microfinance risk is to adopt a regular repayment schedule which is flexible and meet the business needs of the client. Also, the regular repayment structure instils credit discipline among microfinance borrowers as well as screens out indisciplined clients and provide early warning system to loan officers and group members about potential default which demands the necessary action to be taken(2009:195).

It must be noted from the above finding that every MFI aims at achieving high repayment rate to ensure the sustainability of their credit portfolios. It is, therefore, important to find out the factors that affect the sustainability of microfinance schemes. According to the results shown in Table 6.23 below, 29.7% stated that loan default is one of the factors that affect the sustainability of microfinance schemes. This was followed by 23.4% who stated that inadequate loan support and poor business practices of borrowers which are 19.9% and 8.7% respectively.

Table 6.23 Factors Affecting Sustainability of Microfinance Institutions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Loan defaults	113	29.7	29.9	29.9
	Inadequate loan support	89	23.4	23.5	53.4
	Poor business practices of borrowers	76	19.9	20.1	73.5
	Concept of targeting the poor	33	8.7	8.7	82.3
	High lending costs	67	17.6	17.7	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

This implies that loan default is a challenge facing MFIs in the Greater-Accra Region of Ghana. The finding emphasises the need for MFIs to ensure effective and efficient credit risk management as well as providing entrepreneurial skills to their borrowers to enhance their business management capacity. It is believed that the sustainability of MFIs largely depends on the ability of the MFIs to collect loans granted to borrowers as effectively and efficiently as possible.

In effect, MFIs must aim at full repayment or very fewer loan delinquencies to ensure a high loan portfolio quality. This is the basis for which this study proposes the provision of microfinance for poverty reduction through entrepreneurship. It must be noted that the provision of non-financial services such as capacity development is a complement to the credit delivery function of MFIs which enhances the economic capabilities of the entrepreneurial poor.

To ensure that microfinance achieves its purpose of reducing the level of poverty of the poor, there is, therefore, the need for MFIs to develop effective and efficient credit risk management strategies for the poor. In effect, the risk management strategies of MFIs are needed to assess the peculiar needs of each client which will ensure that high repayment rates are achieved. For this purpose, the following sections examine the Credit risk management techniques used by MFIs in the Greater-Accra Region of Ghana and how these techniques inhibit access of the poor to microfinance services.

6.6.3 CREDIT RISK MANAGEMENT TECHNIQUES

This section examines the credit risk management techniques used by MFIs in the Greater-Accra Region of Ghana. Before examining the credit risk management techniques, it is important to find out the key personalities that are responsible for credit risk management in MFIs. This has become necessary because the need for a paradigm shift in stewardship of credit risk management within the structure of MFIs is now.

Credit risk management in the MFIs should be done by top management who can design pro-poor credit risk management techniques which promote financial inclusiveness of the poor rather than financial exclusiveness which undermines the 'mission' and purpose of microfinance. The key people responsible for credit risk in the various MFIs in the Greater-Accra Region of Ghana are examined below

6.6.4 CREDIT RISK RESPONSIBILITY

From Table 6.24 below, it is revealed that the key officers responsible for credit risk management in the MFIs are Risk Managers (36.8%), Board of Directors (18%), Line managers (15.6%), Asset Liability Committee (ALCO) (15.3%), and Treasurer (14.3%). This result suggests that apart from the Risk Manager who according to the respondents holds the highest responsibility of credit risk management, other key officers of MFIs are also responsible for credit risk management **(Table 6.24).** This finding is evident in the Basel I and II reports which states that credit risk strategies, policies and practices must be communicated throughout the MFIs by the Board of Directors through senior management and that, all business units performing activities that impact on credit must be aware of these strategies and policies. (Bank for International Settlements, 2015).

This is an indication of the fact that credit risk management in MFIs is an institutional wide responsibility (including the Board of Directors, risk managers, ALCO, Credit committees, treasury department as well as credit officers) and that there is an effective interaction between these units in designing and implementing an effective pro-poor credit risk management policy in the delivery of microfinance to the entrepreneurial poor (Goldberg and Palladini (2010:21).

Table 6.24 Managers Responsible for Credit Risk

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Line manager	59	15.5	15.6	15.6
	ALCO	58	15.2	15.3	31.0
	Treasurer	54	14.2	14.3	45.2
	Board of Directors	68	17.8	18.0	63.2
	Risk manager	139	36.5	36.8	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

According to Campion & Frankiewicz, (2009:45), the Board of Directors of MFIs have several distinct responsibilities in providing strategic direction, management oversight, fiduciary protection of assets, and fulfilment of legal obligations and that credit risk transcends beyond individual units of the MFI in delivering a holistic view of credit risk management. Also, the board must ensure that credit risk is adequately communicated, assessed, measured, monitored and controlled in the delivery of microfinance to the entrepreneurial poor.

6.6.5 MANAGEMENT STRUCTURE FOR CREDIT RISK MANAGEMENT

According to Figure 6.1 below, the respondents stated that management of credit risk mainly falls under operational management strata (37%) and at the same time, it forms the tactical (34%) and strategic (29%) responsibility levels of management. This is consistent with Campion and Frankiewicz (2009) where it has been indicated that, for an effective and efficient governance structure in MFIs, credit risk must include strategic, tactical, and operational strategies to ensure effective delivery of every aspect of the credit risk policy of MFIs (Campion & Frankiewicz, 2009:56).

Furthermore, it is important to state that credit risk management in an MFI must be based on the governance structure where there is joint responsibility of the board, management and in some cases client's representatives are required in making inputs into the credit risk policy of the MFI (Goldberg and Palladini (2010:21). This responsibility linkage is vital for a sound credit risk management in an MFI.

Figure 6.1 Credit risk management Structure

6.6.6 REGULARITY OF CREDIT RISK MONITORING

Per the results obtained from the survey, all the respondents **(Table 6.25**) were of the view that credit risk is monitored on daily basis. From this finding, it is suggestive to state that information on credit risk is collected on a timely basis. This was why Goldberg and Palladini (2010:21) stated that timeliness and accuracy of information on credit risk must be generated regularly by management information system (MIS) of MFIs in a comprehensive manner so as to report any potential credit risk problem.

This implies that credit risk must be frequently monitored and reported so as to ensure that corrective measures are taken to resolve the credit risk problem as prompt as possible. This, therefore, means that specific MFI officials should be responsible for monitoring and reporting on credit quality. Furthermore, if credit risk is monitored on an ongoing basis, it would enable credit analysts in MFIs to promptly assign internal risk ratings to their credit portfolios. This would ensure that swift changes are made to contractual credit arrangements and adequate reserves or provisions are made for credit losses or loan defaults. Again, Goldberg and Palladini (2010:21) found that regular credit risk monitoring enables credit analysts in MFIs to apply mechanisms in controlling credit losses or loan defaults. In this case, the study went further to find out the mechanisms used by the MFIs in controlling loan defaults and this is dealt with in the following section.

Table 6.25 Frequency of Credit Risk Monitoring

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Every day	378	99.2	100.0	100.0
Missing	System	3	.8		
Total		381	100.0		

6.6.7 MECHANISMS FOR CONTROLLING LOAN DEFAULTS

As found above, credit risk is monitored on an ongoing basis and for that matter, loan repayments are monitored so that when borrowers default, steps are taking using various mechanisms to remedy the problem. A loan is said to be in default when the borrower does not or is unable to make payments as required by the terms of the loan contract or covenant as it may be called in some MFIs (Murray, 2011:59).

In addressing the issue loan defaults, Table 6.26 illustrates the mechanisms used by the MFIs in controlling loan defaults. From the Table, it has been seen that the major mechanisms used are enforcement of credit policies (22.8%), quick follow-ups on loan arrears (17.7%), client self-selected mechanisms (13%) client loan repayment record (12.4%). The rest are the use of solidarity groups (11.6%), use of client's savings, and the use of client's three years' income data (7.1%).

Table 6.26 Mechanisms for Controlling and Prevention of Loan Defaults

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Client self-selected mechanisms	49	12.9	13.0	13.0
	Quick follow up on loan arrears	67	17.6	17.7	30.7
	Use of solidarity group	44	11.5	11.6	42.3
	Enforcing credit policies	86	22.6	22.8	65.1
	Scope of lending concentration	23	6.0	6.1	71.2
	Assessing three years' client income data	27	7.1	7.1	78.3
	Use of Client savings	35	9.2	9.3	87.6
	Client loan repayment record	47	12.3	12.4	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

The findings in Table 6.25 above showed that the MFIs have devised institutional mechanisms in controlling loan defaults. For instance, it was found that the MFIs enforce credit policies in reducing defaults. This finding is consistent with that of Kohansal Mansoori, (2009:99) where the researchers indicated that one of the key mechanisms for the prevention and controlling of loan defaults in MFIs is the ability of the MFI to enforce the loan covenant which includes a guarantee from third parties, and the pledging of collateral substitutes.

With regards to quick follow-ups on loan arrears as revealed by this study, it supports the study of Addae-Korankye, (2014) in which it was found that frequent visits to borrowers help in ensuring that borrowers maintain their businesses and repay their loans as required. Addae-Korankye, (2014) also indicated that frequent follow-ups help loan officers to understand borrowers' businesses and how appropriate the loan terms (loan amount, repayment frequency and period of repayment) and the possibility of loan defaults occurring. This implies that general loan monitoring is essential in controlling loan defaults. The most effective mechanism to be used by MFIs, therefore, are quick follow-ups to the business premises or homes of their clients if a default occurs to understand the nature of the challenge facing the client.

Also, the findings reveal that MFIs use client self-selection and the formation of solidarity groups in controlling loan defaults. It must be noted that the use of solidarity groups in controlling loan defaults ensures that MFIs can collect loans efficiently through group based- lending (Murray,2011:20). Solidarity lending is a strategy where loans are disbursed to a group of clients who can co-guarantee for each other in accessing the loan. In this case, the solidarity group is responsible for loan repayment and uses group pressure to enforce repayment of the instalment to the MFI.

Having examined the mechanisms used by MFIs in controlling and preventing loan defaults, the next step is to examine the credit risk management techniques used by the MFIs in the management of their loan portfolios. This section is to ascertain how credit risk management techniques are employed in the delivery of microfinance to the entrepreneurial poor.

6.6.8 CREDIT RISK MANAGEMENT TECHNIQUES

Providing microfinance for poverty reduction through entrepreneurship requires a comprehensive approach which demands that, the right credit risk management techniques are used to support the poor in developing various entrepreneurial opportunities which eventually leads to poverty reduction. This is a critical role that MFIs are supposed to play in developing the Ghanaian economy. The first step in this process is to understand the nature of the microfinance risk and the various risks that the poor are faced with (Ayayi, 2012:37).

In this direction, the survey asked the respondents to state their agreement to the statements regarding credit risk management techniques used by the MFIs. They were to use the 5-Likert scale in expressing their views on the credit risk management techniques used by MFIs. The Weighted Average formula stated in the previous chapter was employed to calculate the weighted mean using the results obtained from the survey. The outcomes of the calculations are shown in **Table 6.27** below. The weighted mean obtained for each of the variables of credit risk management technique was then compared with the Vagias (2006) model for interpreting respondents' responses (see Table 5.2 in the previous chapter).

From Table 6.26 below, it is revealed that the top 6 credit risk management techniques used by the MFIs are: (1) individual lending Methodology (WA = 0.95); (2) provision of non-financial services such as the provision of entrepreneurial and capacity training (WA = 0.92); (3) group lending methodology (WA = 0.92); (4) dynamics incentive mechanism (WA = 0.88); (5) flexible repayment schedules (WA = 0.85); and (6) regular on-site visits (WA = 0.81). Other credit risk management techniques which were ranked as high are: (7) insurance cover (WA = 0.79); (8) movable property as collateral (WA = 0.74); and (9) collateral substitutes (WA = 0.64).

From Table 6.27, the use of a landed property as collateral in extending credit to the poor was ranked as extremely high (95%). The use of movable properties ranks second with 92% of respondents indicating that the use of movable properties such as vehicles has become useful due to the current default rates being observed in the industry particularly in the urban centres like the Greater-Accra Region (see table 6.23).

Table 6.27 Credit Risk Management Techniques used by the MFIs

CRM Techniques	Weighted Mean (WA)	Interpretation	Rank
Landed property as collateral	0.95	Extremely high	1
Movable property as collateral	0.92	Extremely high	2
Group lending Methodology	0.91	Extremely high	3
Dynamics incentive mechanism	0.88	Extremely high	4
Flexible repayment schedules	0.85	Extremely high	5
Regular on-site visits	0.81	Extremely high	6
Insurance cover	0.79	Very high	7
Provision of nonfinancial services	0.74	Very high	8
Collateral substitutes	0.65	High	9
Individual lending Methodology	0.44	Low	10
Retaining a percentage of loans and savings	0.48	Low	11
Usage of householder	0.44	Low	12

From the results, it has also been shown that MFIs provide non-financial services such as financial training, technical and managerial skills development that seek to improve and upgrade the business knowledge of the entrepreneurial poor in the use of the microfinance provided (Kessy & Temu, 2010:103). This was also ranked as extremely high credit risk management technique used by the MFIs in the Greater-Accra Region of Ghana (74%). This supports the views of (Agyapong, 2010:196;Chowdhury & Amin, 2011:138; Ejaz & Ramzan, 2012:305) that the entrepreneurial poor does not need only microcredit but rather, the poor need entrepreneurial skills in order to succeed with any business venture which is aimed at poverty reduction.

It was also found that the MFIs in the Greater-Accra Region of Ghana employ group lending methodology as a credit risk management technique. This technique has also been ranked high by the MFI respondents (91%). Group lending is an arrangement whereby individuals who do not have collateral, form a group with the aim of securing loans for the membership of the group. Examples in this include women associations, farmer associations, and religious groups among others. This finding also supports the study of Kono & Takahashi, (2010:29) that “MFIs use group lending schemes where each member is jointly liable for each other’s loan, and in the event of default, the group is made liable for the payment of any instalment missed.

The use of group lending technique by MFIs was adopted from the world acclaimed microfinance model called the Grameen Model which was developed by the Grameen Bank since 1976 (Latifee, 2000). The group lending methodology can potentially solve the problem of information asymmetry, reduce the risk of defaults, and improve repayment rates (Baland, Somanathan, & Wahhaj, 2013:131). The implication of this finding is that the adoption of a joint liability schemes in lending to the poor will provide the necessary monitoring mechanism within the group which consequently reduces the problem of moral hazards and loan defaults.

The use of dynamic incentives as a credit risk management technique was also found among MFIs operating in the Greater-Accra Region of Ghana. A shown in Table 6.27 above, MFIs use dynamics incentives as a progressive lending strategy in managing credit risk and are used in both individual and group lending. This finding is consistent with Armendariz and Morduch (2005) where it was found that dynamic incentive mechanisms have huge effects on borrowers of microfinance and it also helps in building a long-term relationship between MFIs and their borrowers. The incentives system such as the use of concessional interest rates helps repayment particularly because it encourages it builds a stronger borrower-MFI relation and borrowers may not be willing to destroy such relationships because they want to continue to enjoy future loans and incentives.

Flexible Repayment schedules have also been identified as one of the credit risk management techniques of the selected MFIs in the Greater-Accra Region of Ghana. The survey results show that MFIs also use flexible repayment schedules and ensure regular on-site visits as means of managing credit risk. It is important to state that timely disbursement and flexible loan repayment schedule, as well as regular on-site visits, would help improve the repayment of a microfinance loan.

Flexible repayment schedule, regular visits and monitoring would help ensure that the business of the borrower is maintained and business challenges identified quickly before it gets out of hand. Indeed, frequent on-site visits would allow the loan officers of MFIs to practically understand the appropriateness and conditions of the borrowers' business and provide proactive advice to borrowers. This would help minimise loan delinquencies and defaults.

Furthermore, the results revealed that the MFIs also employ the use of micro insurance in managing credit risk (79%). This done by transferring certain risks of default such as the death of the borrower, incapacitation, hospitalisation or natural disaster to insurance companies. It has been indicated that, because of the vulnerable nature of the poor, there is the need to provide insurance alongside the credit delivery function of MFIs to hedge the poor against unexpected circumstances such as death, ill-health, natural disasters, and various types of incapacitations which can make the entrepreneurial poor unable to pay their loans as agreed in the loan contracts.

Another finding from the result is that MFIs in the Greater-Accra Region also use movable properties (74%) as well as landed properties (44%) as collateral for loans extended to the entrepreneurial poor.

In this regard, MFIs use borrowers' properties or that of guarantors to secure their loans to reduce the risk associated with the loans granted. The use of movable properties is not encouraged in lending to the poor. Many poor people do not have movable and landed properties to use as collateral for loans. This undermines the principle of using collateral substitutes such as retaining a percentage of loans granted as well as client savings in the delivery of microfinance.

From the results, the use of client's savings was 48% whiles the use of collateral substitutes is 65%. The expectation is that the use of landed properties and movable properties in lending which the banks use must be avoided in the delivery of microfinance to the poor. This is because it will deny many poor people who do not have landed and movable properties to secure their loans.

The above discussion so far presented the findings regarding the extent to which the MFIs are reaching out to the poor by way of providing microfinance, and the various credit risk management techniques used by the selected MFIs in the Greater-Accra Region of Ghana. The purpose is to determine how MFIs in the Greater-Accra Region of Ghana extend their services to the poor in an anticipation to reduce their poverty. In the pursuance to achieving this aim, one issue that also demands interrogation is whether the credit risk management techniques adopted by the MFIs inhibit the ability of the selected MFIs in extending microfinance to the entrepreneurial poor in their catchment areas. This issue has been discussed in the following section.

6.6.9 INHIBITION OF MICROFINANCE TO THE POOR

It has been stated that, efforts of attaining financial sustainability of MFIs turn to lead most MFIs to commercialise their services which eventually leads to ‘mission drift’ in serving the entrepreneurial poor (Copestake, 2007:1721;Nikhil, 2009:191;Jia, Cull, Guo, & Mac, 2016;17). By so doing, they apply stricter loan screening and repayment procedures which eventually ignores the poor and upscale their services to the nonpoor.

In view of this, this section sought to find out whether credit risk management practices of MFIs in the Greater-Accra Region of Ghana inhibit the extension of microfinance to the. The results obtained from the survey are illustrated in **Table 6.28** below.

Table 6.28 Factor that Inhibit Microfinance to the poor

CRM Techniques	**Weighted Mean (WA)**	**Interpretation**	**Rank**
The Use of landed property as collateral	0.72	Very high	1
The use of movable property as collateral	0.71	Very High	2
Use of Cruel methods of collection	0.60	High	3
Non-Flexible repayment schedules	0.39	Very low	4
Collateral substitutes	0.34	Very low	5
Lack of regular Monitoring	0.33	Very low	6
Lack of dynamic incentive mechanism	0.19	Very low	7
Lack of micro insurance	0.18	Very low	8
Group lending Methodology	0.15	Very low	9
Usage of householder	0.11	Very low	10
Retaining Percentage of Savings	0.10	Very low	11
Individual lending Methodology	0.9	Very low	12

From Table 6.28, the findings regarding the inhibition of microfinance to the entrepreneurial poor show that MFIs in the Greater Accra Region of Ghana use credit risk management methods that inhibit the extension of credit to the poor. The use of landed properties was observed high (72%) among the MFIs studied. Moreover, MFIs also request clients to submit movable properties such as vehicles to access loans (71%). The use of cruel methods of collection (60%) whereby MFI officers invade the homes of defaulting clients and in some cases seizing their wares was ranked third in the credit risk management techniques used by MFIs in the Greater-Accra Region of Ghana which inhibit clients from approaching MFIs for loans.

Other inhibiting credit risk mechanisms include the use of non-flexible repayment schedules (39%), the use collateral substitutes (34%), lack of regular monitoring (33%) lack of dynamic incentives (19%), lack of micro insurance (18%), the use of group lending methodology (15%), usage of householder mechanisms (11%), retaining percentage of client savings (10%) and the use of individual lending methodology (0.9%).

The use of landed and movable properties as collateral for loans are the preserve of the commercial banks. However, as can be MFIs have adopted this strategy to measure to manage their risk. This risk management technique does not favour the poor in reducing their poverty. As discussed above, the use of collateral substitutes is rather encouraged in providing financial services to the entrepreneurial poor in the Greater-Accra Region of Ghana are encouraged.

6.7 PROVISION OF NON-FINANCIAL SERVICES TO CLIENTS

It is practically relevant for MFIs to provide various non-financial services to augment their credit delivery function. The needs of the poor are diverse and multi-dimensional in nature (Kakwan & Silber, 2008:987;Esposito & Chiappero-Martinetti, 2010:181).Therefore microcredit alone is not likely to reduce the poverty levels of the entrepreneurial poor without the provision of other non-financial services such as entrepreneurial training,management education as well as financial education.

To this end, the survey found out whether MFIs provide these non-financial services to the poor. The results as shown in **Table 6.29** below. In response to this, almost all the respondents strongly agreed (99%) that the MFIs provide non-financial services to their borrowers. This confirms the use of non-financial services as a credit risk management technique by MFIs as discussed in section 6.65 (See table 6.27).

Table 6.29 Provision of nonfinancial services to borrowers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	378	99.2	100.0	100.0
Missing	System	3	.8		
Total		381	100.0		

Building the managerial capacity of microfinance clients improves their repayment capacity which helps the portfolio quality of MFIs (Kessy & Temu, 2010:103;Ejaz & Ramzan, 2012:305). This also supports the reason 74% of MFIs use entrepreneurial training as a credit risk management technique (see Table 6.27).

The various areas which MFIs provide non-financial services include training on financial discipline, the cultivation of savings culture, training on financial records keeping and the management of their internal control systems. Tables 6.30, 6.31,6.32, and 6.33 explains the results respectively.

Table 6.30 Instilling Financial Discipline

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	16	4.2	4.2	4.2
	Slightly disagree	11	2.9	2.9	7.1
	Slightly agree	46	12.1	12.2	19.3
	Strongly agree	305	80.1	80.7	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

Table 6.31 Improving Savings Culture

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	9	2.4	2.4	2.4
	Slightly agree	33	8.7	8.7	11.1
	Strongly agree	336	88.2	88.9	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

Table 6.32 Records keeping

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	10	2.6	2.6	2.6
	Slightly disagree	16	4.2	4.2	6.9
	Slightly agree	53	13.9	14.0	20.9
	Strongly agree	299	78.5	79.1	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

Table 6.33 Internal Control System

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	16	4.2	4.2	4.2
	Slightly disagree	15	3.9	4.0	8.2
	Slightly agree	52	13.6	13.8	22.0
	Strongly agree	295	77.4	78.0	100.0
	Total	378	99.2	100.0	
Missing	System	3	.8		
Total		381	100.0		

6.8 EFFECT OF MANAGERIAL AND FINANCIAL EXPERTISE ON LOANS REPAYMENT

Having examined the ways by which the MFIs help in improving the managerial expertise and financial literacy to their clients, it is also of interest to find out whether the provision of these non-financial services has an impact on loan repayment with the MFI. In this regard, the respondents were asked whether they agreed that providing borrowers with managerial and financial expertise positively correlate with repayment performance.

The results obtained from the survey revealed that all the respondents strongly agreed with the view that providing borrowers with managerial and financial expertise positively correlate with loan repayment performance. The implication of this result is that adequate managerial and financial competencies help in improving the ability of microfinance clients to develop sound strategies in the management of their finances and business. To support this finding, the Pearson Correlation was conducted to examine the relationship between managerial and financial expertise and loan repayment performance of clients.

In examining the relationship that exists between managerial and financial expertise and loan repayment performance of clients, loan repayment (LR) was used as a dependent variable while managerial and financial expertise was used as the independent variable. The dimensions or construct for managerial and financial expertise were: Instilling Financial Discipline (IFD), Improving Savings Culture (ISC), Business Management Skills (BMS), Proper Records Keeping (PRK) and Internal Control System (ICS). The correlation matrix for the relationship between managerial and financial expertise and loan repayment performance of clients are shown in Table 6.34 below.

From Table 6.34 below, it is revealed that there exists a positive relationship between instilling financial discipline, improving savings culture, business management skills, proper records keeping and internal control system. This implies that managerial and financial training for microfinance clients facilitates decision making on proper debt management leading to regular loan repayments. This finding support the MSME sector- wide study of Mutegi, Njeru and Ongesa (2015:2) in Kenya which found out that the provision of managerial and financial training for microfinance clients significantly improve financial literacy leading to improved loan repayment of microfinance clients.

Table 6.34 Correlations Between Managerial and Financial Expertise and Loan Repayment Performance

		IFD	ISC	BMS	PRK	ICS	LR
IFD	Pearson Correlation	1	.812**	.954**	.925**	.919**	.740**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	378	378	378	378	378	378
ISC	Pearson Correlation	.812**	1	.863**	.833**	.801**	.612**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	378	378	378	378	378	378
BMS	Pearson Correlation	.954**	.863**	1	.934**	.927**	.713**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	378	378	378	378	378	378
PRK	Pearson Correlation	.925**	.833**	.934**	1	.962**	.872**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	378	378	378	378	378	378
ICS	Pearson Correlation	.919**	.801**	.927**	.962**	1	.885**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	378	378	378	378	378	378
LR	Pearson Correlation	.740**	.612**	.713**	.872**	.885**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	378	378	378	378	378	378

**. Correlation is significant at the 0.01 level (2 tailed).

To examine the extent to which changes in loan repayment can be explained by the changes in managerial and financial training (between instilling financial discipline, improving savings culture, business management skills, proper records keeping and internal control system), multiple regression analysis was conducted. The results are shown in Tables 6.35, 6.36 6.37 below.

Table 6.35 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.955[a]	.912	.910	.416

a. Predictors: (Constant), Internal control system, improving savings culture, instilling financial discipline, Business management skills, Records keeping

Table 6.36 ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	664.884	5	132.977	766.909	.000[a]
	Residual	64.502	372	.173		
	Total	729.386	377			

a. Predictors: (Constant), Internal control system, improving savings culture, instilling financial discipline, Business management skills, Records keeping.
b. Dependent Variable: Loan repayment.

The coefficient of determination shown in Table 6.35 explains the extent to which changes in loan repayment (dependent variable) can be explained by changes in the five independent variables (***instilling financial discipline***, ***improving savings culture***, ***business management skills, proper records keeping and internal control system***). The dependent variable (loan repayment) explains that 95.5% of the effects of managerial and financial training for microfinance clients on loan repayment is contributed by R^2. This implies that the other variables that were not included in this calculation contributed 4.5%. The other potential variables that could contribute to the 4.5% could be the credit risk management techniques employed by the MFIs.

Per the results shown in Table 6.37 below, the equation below is derived in explaining the relationship.

$$Y = \beta_0 + \beta_1 + \beta_2 + \beta_3 + \beta_4 + \beta_5 + \varepsilon$$

The above equation now becomes:

$$\mathbf{Y = 0.591 + 0.\ 092_1 + 0.\ 239_2 + 0.\ 1.343_3 + 1.410_4 + 1.365_5.}$$

The regression equation above shows that taking all the variables (instilling financial discipline, improving savings culture, business management skills, proper records keeping and internal control system) into consideration at a zero constant, then the rate of loan repayment will be 4.5%

Table 6.37 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	-.591	.166		-3.548	.000
	Instilling financial discipline	-.092	.080	-.063	-1.147	.252
	Improving savings culture	-.239	.066	-.113	-3.612	.000
	Business management skills	-1.343	.098	-.886	-13.757	.000
	Records keeping	1.410	.100	.911	14.083	.000
	Internal control system	1.365	.084	.978	16.216	.000

From Table 6.37 above, taking all the independent variables at zero, then a unit increase in instilling financial discipline leads to 0.591 increase in loan repayment. In the same way, a unit increase in business management skills leads to 0.092 increase in loan repayment and so forth.

The findings above seek to suggest that managerial and financial training for borrowers of microfinance continue to have a significant effect on repayment. All the dimensions of managerial and financial training which are instilling financial discipline, improving savings culture, business management skills, proper records keeping and internal control system show a positive relationship with loan repayment. At 95% confidence level and 5% level of significance, then managerial and financial training (i.e instilling financial discipline, improving savings culture, business management skills, proper records keeping and internal control system) are significant in explaining the correlation between managerial and financial training and loan repayment performance.

Based on this exposition and the findings revealed, the interpretation is that the observed data are consistent with the assumption that managerial and financial training for microfinance clients (borrowers) has a significant positive relationship with loan repayment hence the hypothesis is true and must be accepted. This, therefore, raises an important concern on whether the provision of microfinance to the poor through entrepreneurship can contribute significantly to poverty reduction. The following sections analysis and discuss the results obtained from the loan beneficiaries to determine whether financing the poor through entrepreneurship can indeed contribute to poverty alleviation.

6.9 DEMOGRAPHIC CHARACTERISTICS CLIENTS OF THE MFIS

This section analyses the demographic data on the clients of the MFIs involved in this study. The main issues dealt with are the gender dynamics, age, educational background and employment status of the respondents.

6.9.1 GENDER DISTRIBUTION

From Figure 6.2 below, it is seen that 35% of the respondents involved in this study are males while 65% are females. This finding suggests that clients of the selected MFIs in the Grater-Accra Region of Ghana are dominated by women. This confirms the global dominance of the microfinance landscape by women clients. The study of Armendáriz & Roome, (2008:2) which indicated that seven out of every ten microfinance clients are women supports this result. Also, studies in the Ghanaian microfinance landscape indicate that 67% of microfinance clients are women (Adjei, 2010:69).

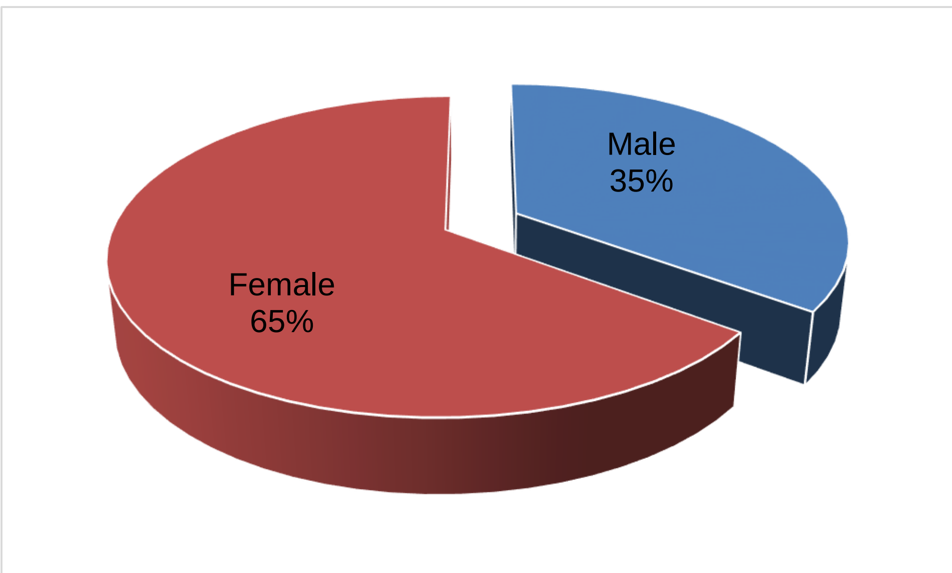


Figure 6.2 Gender Distribution

Microfinance works best for women because women are said to exhibit better repayment capacity than men. More importantly, women are regarded as the most vulnerable and economically disadvantaged especially in developing countries (Mahmood, Hussain, & Matlay, 2014) It is also estimated that, 70% of the world's poor are women. Also, women are more prone to long-term poverty than me because they face more barriers in lifting themselves out of poverty (Chant, 2006:4;Debrah,2013:46). This implies that supporting women with microfinance service are likely to have the necessary on poverty reduction.

6.9.2 AGES OF THE CLIENTS OF THE MFIS

With regards to ages of the clients of the MFIs, the results as illustrated in Figure 6.3 below indicate that 68.3% were more than 45 years while 46% were between 36–45 years but only a few were below the ages of 36. This finding implies that; the MFIs do not include the youth in their microfinance programmes. This finding is consistent with that of Demirguc-Kunt, Klapper, Kumar, & Randall,(2013;1) which indicated that 62% of youth both in developed and developing economies (ages 18 – 25) do not have access to financial services. Excluding the youth from financial services is worrisome as this would limit the ability of the youth in the region to pursue entrepreneurial opportunities that will reduce the current unemployment rate in Ghana.

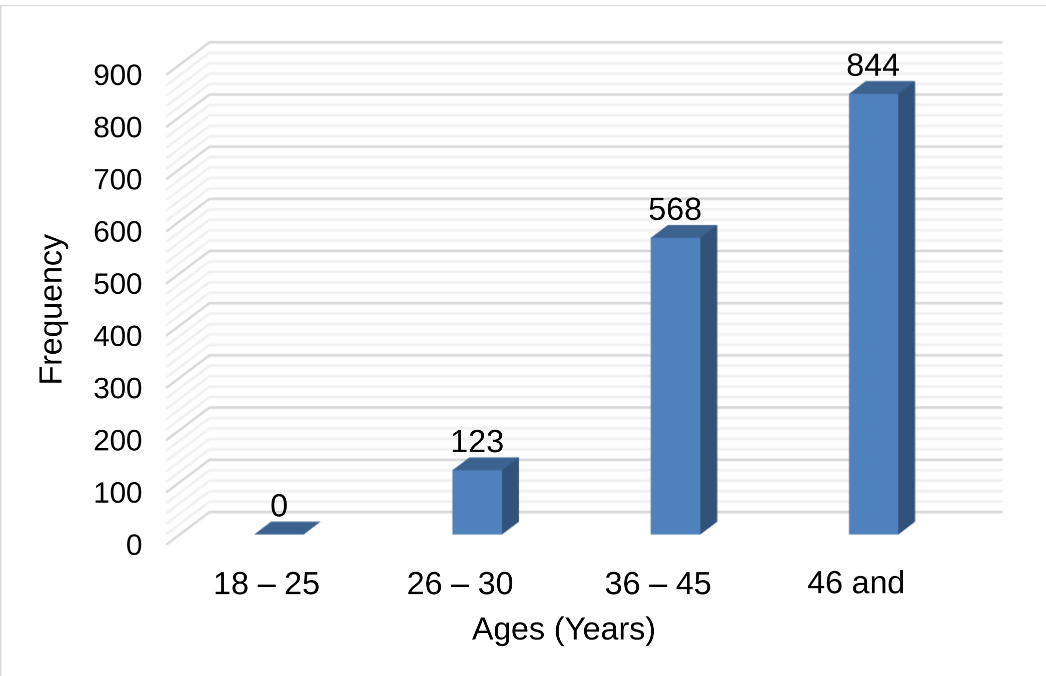


Figure 6.3 Age Distribution

6.9.3 EDUCATION BACKGROUND

From Table 6.38 below, it is indicated that 55.3% of the respondents had basic education, with 28.7% having secondary education and 9.1% having a tertiary education while 6.9% of the respondent had a professional education. From these results, it is suggestive to state that majority of microfinance clients have a low educational level. Harley, (2010) asserts that there is a significant positive relationship between education and microfinance utilisation. This is the reason MFIs are supposed to provide the necessary financial education and literacy for their clients which will facilitate effective usage of microloans. Having examined the educational background of the microfinance clients, it is also important to find out the employment status of the clients.

Table 6.38 Client Qualification

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Basic education	683	55.2	55.3	55.3
	Secondary education	354	28.6	28.7	84.0
	Tertiary	85	6.9	6.9	90.9
	Professional	113	9.1	9.1	100.0
	Total	1235	99.8	100.0	
Missing	System	2	.2		
Total		1237	100.0		

6.9.4 EMPLOYMENT STATUS

Figure 6.4 below illustrates the employment status of the microfinance clients. From Figure 6.4, it is seen that 89% of the respondents were self-employed while

11% were employees of other businesses. These results showed that majority of the microfinance clients are into self-employment. Further investigation conducted revealed that the 11% employees were the government and private sector employees who were also provided with microfinance in meeting individual financial needs.

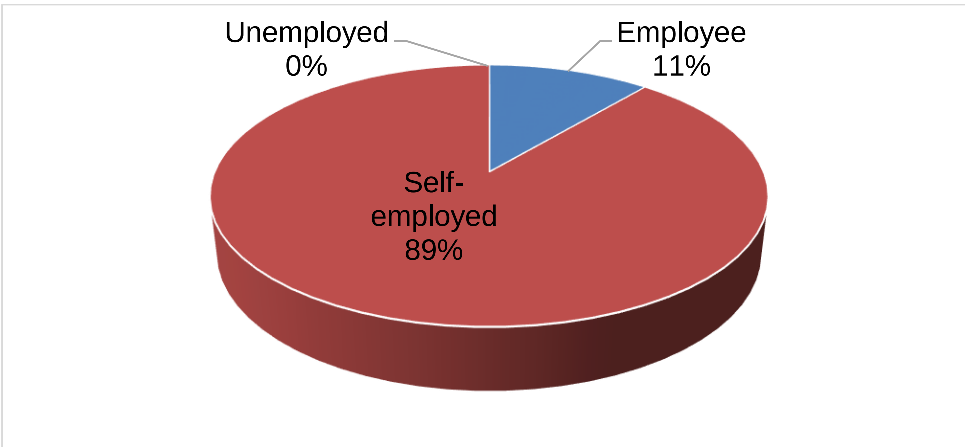


Figure 6.4 Employment status

6.9.5 BUSINESS SECTORS

From Figure 6.5 below, 38% of the respondents were into trading, followed by 25% who were providing services, with 12% involved in agro-business and 7% engaged in manufacturing while 18% were into other forms of businesses. It is therefore noted from these findings that the majority of the microfinance clients are engaged in income generating activities. This implies that the microfinance clients can improve their living condition if they are supported adequately with microfinance services. This is because microfinance can reduce poverty of the entrepreneurial poor through the venture creation process (Asiamah & Osei, 2007).

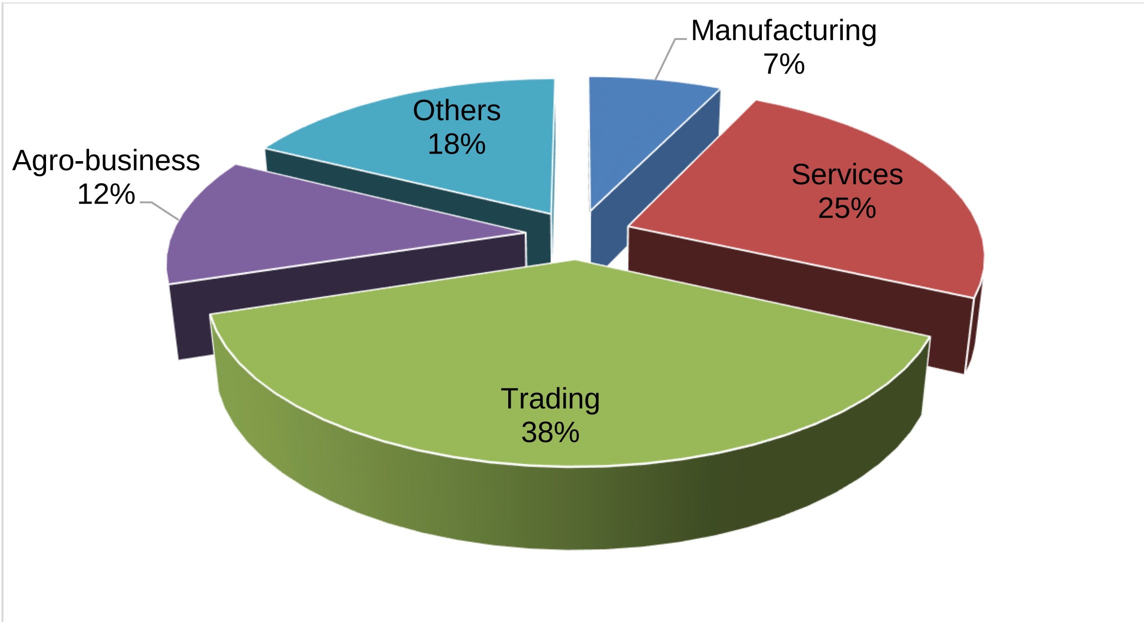


Figure 6.5 Business sectors

6.9.6 LENGTH OF YEARS IN BUSINESS

Per table 6.39, 21.5% of microfinance clients had been in business for less than 3 years, 22.7% had also been operating their various businesses between 3 to 5 years and 32.5% of the respondents had been in business between 6 to 10 years, while 23.4% had been operating their businesses for more than 10 years. From this exposition, it is implied that majority of the microfinance clients have considerable years of experience in their areas of business operation and this coupled with the right intervention from the MFIs will have an impact on their various businesses and poverty reduction.

Table 6.39 Number of Years in Business

	Years	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 3	265	21.4	21.5	21.5
	3 to 5	280	22.6	22.7	44.1
	6 to 10	401	32.4	32.5	76.6
	More than 10	289	23.4	23.4	100.0
	Total	1235	99.8	100.0	
Missing	System	2	.2		
Total		1237	100.0		

6.10 EXTENT TO WHICH MICROFINANCE IS REACHING THE POOR

The results of the survey of MFI clients showed that all the respondents agreed that microfinance is the most effective lending tool for poverty reduction. This finding confirms an earlier finding where officers of the MFIs agreed that microfinance is the most effective tool for poverty reduction. However, there were few varying views on whether microfinance institutions in the Greater-Accra Region of Ghana are reaching out to the poor. This finding again supports the views of the microfinance officers where 81% of them strongly agreed that MFIs in Ghana are really reaching out to poor. The results shown in Table 6.40 below revealed that 55.9% of the respondents strongly agreed that microfinance institutions in Ghana are reaching out to the poor with 18.6% slightly agreed in support of this view. But 14.7% strongly disagreed while 8.8% also slightly disagreed with the assertion that microfinance institutions in Ghana are reaching out to the poor.

Table 6.40 Outreach of MFIs to the Poor

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	181	14.7	14.7	14.7
	Slightly disagree	109	8.8	8.8	23.5
	Not sure	17	1.4	1.4	24.9
	Slightly agree	230	18.6	18.6	43.5
	Strongly agree	690	55.9	55.9	99.4
	Missing	8	.6	.6	100.0
	Total	1235	100.0	100.0	

Per the results are shown in Table 6.41 below regarding the categories of the poor the MFIs are focusing on, 40.4% of the respondents were of the view that the MFIs mostly target the extremely poor. This was followed by 32.3% who stated that the MFIs are targeting moderate poor, and 19.5% said the MFIs target the vulnerable non-poor while 7.8% stated non-poor. This finding seeks to suggest that majority of the MFIs develop their microfinance programmes around the various categories of the people. This implies that many MFIs still have a clear agenda of serving the poor in society. However, the various challenges facing them such as high loan defaults and the high cost of capital pushes them to serve the non-poor category.

Table 6.41 Categories of MFI Client

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Extreme poor	498	40.3	40.4	40.4
	Moderate poor	399	32.3	32.3	72.7
	Vulnerable non-poor	241	19.5	19.5	92.2
	Non-poor	96	7.8	7.8	100.0
	Total	1234	99.8	100.0	
Missing	System	3	.2		
Total		1237	100.0		

With regards to the areas in which MFIs are most dominant, the results as shown in Table 6.42 below revealed that 60.2% of the respondents stated that MFIs are most dominant in the cities and 28.7% of the respondents were of the view that MFIs mostly operating in the urban areas. These findings go to confirm the findings revealed in Table 6.14 in the earlier sections. This revelation requires critical attention as it has been estimated that over 1.8 million of Ghanaians representing 62% of the poor living below the poverty line in Ghana reside in the rural areas (Ghana Statistical Service, 2014). The implication is that most rural areas are denied access to microfinance services which undermines the poverty reduction mission of MFIs.

Table 6.42 Operational Areas of MFIs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Cities	743	60.2	60.2	60.2
	Rural areas	37	3.0	3.0	63.2
	Urban areas	354	28.7	28.7	91.8
	Both Rural and Urban	101	8.2	8.2	100.0
	Total	1235	100.0	100.0	

In assessing the performance of MFIs regarding the extent to which they reach out to the poor, the researcher asked the respondents to rate the performance of the MFIs in this regard. The results obtained from the respondents are shown in Figure 6.6 below and from the Figure 6.6, the overall performance of the MFIs is said to be good.

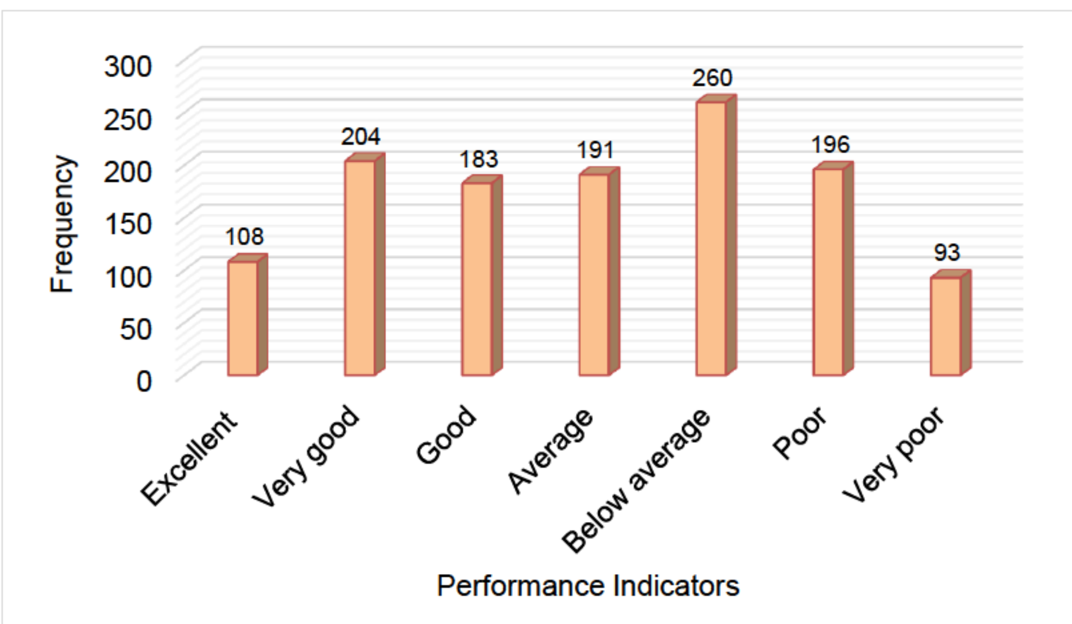


Figure 6.6 Overall performance of the Selected MFIs

6.11 INTENTIONS OF PAYING BACK LOANS

In the previous discussions, it was revealed that loan default is one of the major challenges facing MFIs in the Greater-Accra Region of Ghana. The researcher, therefore, examined the attitude of borrowers towards loan repayment. It is of interest to examine this assertion to provide an insight into how to address the problem of loan defaults in the Greater-Accra Region of Ghana.

6.12 LOAN REPAYMENT

The survey results obtained showed that 63.8% of the respondents were of the view that they always pay back loans they take from the MFIs while 37.2% stated that they were not able to pay up their loans. The finding also seeks to suggest that even though a lot of loans is recovered, MFIs in the Greater-Accra Region of Ghana are faced with loan default considering the fact that 37.2% of the respondents were unable to repay all their loans successfully.

In this regard, it is imperative to find out the main reasons accounting for loan defaults. This has become important as it would enable the MFIs to identify the factors that cause loan delinquency and can address those factors so as to continue providing microfinance to the poor in the Region.

6.13 REASONS ACCOUNTING FOR LOAN DEFAULTS

In finding out the main reason(s) for clients defaulting in paying back their loans, the respondents were asked to choose from possible causes/reasons. The results are shown in Table 6.43 below. From the table, it is revealed that 49.3% of the respondents were of the view that high cost of a loan is one of the main causes of loan default.

High-interest rates currently charged in the microfinance industry is likely to undermine the poverty reduction mission of microfinance. This is because it raises the cost of doing business for the entrepreneurial poor (Bateman M. , 2010).This was followed by 30.4% who stated that poor loan restructuring and repayment methods. Another factor that was also found to contribute to loan default in the Greater-Accra Region of Ghana is poor business practice of MFI clients (13. 1%).This finding supports the reason that providing microfinance to the poor through the development of their entrepreneurial and business management capacity is worthwhile.

Table 6.43 Main reasons for Loan Defaults

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	High cost of loan	609	49.3	49.3	49.3
	Unfavourable economic conditions	17	1.4	1.4	50.7
	Disaster and other unexpected conditions	13	1.1	1.1	51.7
	Poor loan structuring and payment methods	376	30.4	30.4	82.2
	Borrower intention of not paying back (character)	58	4.7	4.7	86.9
	Others	162	13.1	13.1	100.0
	Total	1235	100.0	100.0	

Judging from the foregoing findings as shown in Table 6.43 above, it is obvious that there are issues attributable to borrowers diverting funds and unwilling to honour their loan commitments (4.7%).

6.14 IMPACT OF MICROCREDIT ON BENEFICIARIES

The main goal of this study is to examine how credit risk management in microfinancing the poor through entrepreneurship has contributed to poverty Reduction. Therefore, having examined the various credit risks facing MFIs in the Greater-Accra Region of Ghana, and the techniques that are used in managing, it is, therefore, worthwhile to examine the extent to which microfinancing has really impacted on the poor herein referred to as "beneficiaries". Before addressing this important subject of the study, the survey assessed the borrowers (beneficiaries) in terms of the accounts they operate with the MFIs, loan application and loan approval success rate, outreach and collateral in support of loan application.

6.14.1 ACCOUNTS OPERATED

Per figure 6.7 below, 61% of the respondents operate savings accounts with the MFIs.

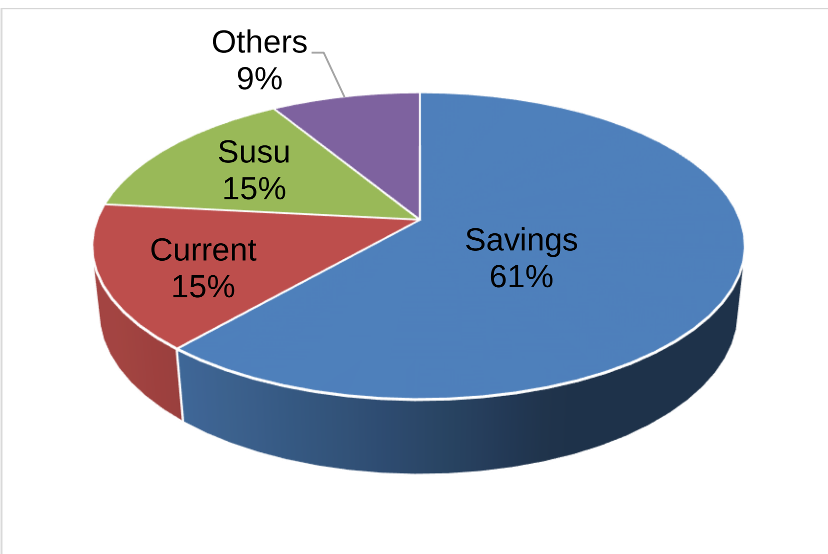


Figure 6.7 Accounts Operated

This was followed by 15% operating current accounts and another 15% operating 'susu' account with 9% operating other accounts such as fixed deposit and, investment accounts.

6.14.2 LOAN APPLICATIONS AND LOAN AMOUNT

On issues of loan application, the survey results showed that all the respondents stated that it is time-consuming to access loans from the MFIs in the Greater-Accra region of Ghana. This is because of the stringent loan screening and collateral demands imposed by most MFIs in the region. The results also showed that 239 respondents constituting 19.4% of MFI clients surveyed were of the view that, the mode of payment of loans was convenient to them. However, 996 respondents representing 80.6% stated that it the mode of repayment adopted by the MFI was not convenient. This finding goes to confirm an earlier finding that the bad loan structuring and repayment schedule were some of the reasons for loan defaults.

With regards to loan amount that had recently been granted to borrowers the results in Table 6.46 below show that 20.2% of the respondents said they were granted amount ranging from GHS500 - GHS 1,000, 29.5% were granted between GHS1,100 – GHS2,000, 36.5% were granted GHS2,100 – GHS3,000 and 10. 6% were given between GHS 3,100 – GHS5,000 while only 3.2% were granted more than GHS5,000.

Table 6.46 Loan Amount (GHS)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	GHS500 - GHS1,000	249	20.2	20.2	20.2
	GH1,100 - GHS2,000	364	29.5	29.5	49.7
	GHS2,100 - GHS3,000	450	36.4	36.5	86.2
	GHS3,100 - GHS5,000	131	10.6	10.6	96.8
	More than GHS5,000	39	3.2	3.2	100.0
	Total	1233	99.8	100.0	
Missing	System	2	.2		
Total		1235	100.0		

6.14.3 MICROFINANCE REACHING THE ECONOMICALLY ACTIVE POOR

From Table 6.47, it is seen that majority of the respondents (51%) strongly agree that microfinance takes financial services to the doorsteps of the economically active poor. 22.8% of the respondents slightly agreed with the assertion. However, 24.6% disagreed with the view. Based on the results, it is could be stated that MFIs are making efforts towards poverty reduction in the Greater-Accra Region of Ghana. But, there could be various challenges that MFIs are faced with, one of which is high default rates among their clients.

Table 6.47 Microfinance Reaching Economically Active Poor

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	184	14.9	14.9	14.9
	Slightly disagree	120	9.7	9.7	24.6
	Not sure	19	1.5	1.5	26.2
	Slightly agree	282	22.8	22.8	49.0
	Strongly agree	630	50.9	51.0	100.0
	Total	1235	99.8	100.0	
Missing	System	2	.2		
Total		1237	100.0		

6.14.4 LOAN UTILISATION

From Table 6.48 below it is revealed that 50.2% of the respondents strongly agreed that they used the loans taken from the microfinance institutions mainly for business purposes. This was also supported by 39.8% who slightly agreed to this view but 10% disagreed with the view that the loans were used for business purposes. This led the researcher to find out more about those who do not use their loans for business purposes. The outcome from this was that, apart from supporting small businesses, the MFIs also provide financial services to salaried workers who seek to acquire loans for personal needs such as renting accommodation, buying home appliances, and the payment of their children's school fees. The finding above indicates that MFIs are affecting the lives of the clients by offering financial services to the entrepreneurial poor to engage in income generating activities and in meeting other personal needs of their clients.

Nolan and Whelan (2009:8) asserts that the poor is affected by basic lifestyle deprivation which comprises the individuals' inability to afford basic needs such as food, clothing, accommodation, pay for utilities and other home wares including microwave, colour television, etc. However, as noted above, microfinance cannot reduce poverty effectively unless it is channelled through an income-generating activity of the poor. Therefore, it can be suggested that MFIs need to extend more enterprise loans more than consumer loans.

Table 6.48 Loan Utilised for Business Purposes

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	74	6.0	6.0	6.0
	Slightly disagree	49	4.0	4.0	10.0
	Slightly agree	491	39.7	39.8	49.7
	Strongly agree	621	50.2	50.2	100.0
	Total	1235	99.8	100.0	
Missing	System	2	.2		
Total		1237	100.0		

6.14.5 FORMS OF COLLATERAL

From Table 6.49 below, it is shown that the main forms of collateral used by microfinance clients in support of loan application are; the movable properties (32.5%), savings (29.2%) and landed property (27.4%). This result confirms the earlier result from MFIs who use landed properties (95%) and the use of movable properties (92%) as their main credit risk management techniques. These findings suggest that the lack of collateral can deny the poor of access to microfinance services (World Bank, 2013). Therefore, MFIs need to use other credit risk management techniques that are pro-poor and meet the needs of the entrepreneurial poor.

Table 6.49 Forms of collateral

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Landed property	339	27.4	27.4	27.4
	Movable property	401	32.5	32.5	49.4
	Business earnings	0	0	0	49.4
	Savings	361	29.2	29.2	89.1
	Fixed deposits	76	6.2	6.2	95.3
	Business stock	58	4.7	4.7	100.0
	Total	1235	100.0	100.0	

6.14.6 MONITORING OF LOAN BORROWERS

From Figure 6.7 below, it is that 1,179 respondents constituting 95.5% of the respondents were of the view that the MFIs as part of their monitoring efforts, visit their business premises to observe how their business was faring. In finding out the frequency at which the MFIs visit the clients, the results showed that 35% said it is done once a month, 47% stated that the MFIs visit more frequently, while 15% said, MFIs visit once during the loan cycle.

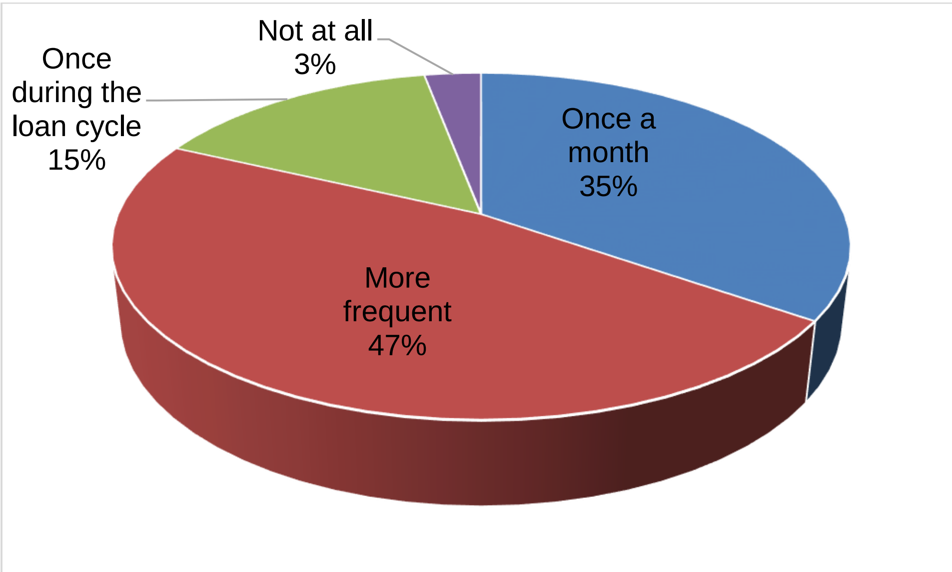


Figure 6.8 Frequency of visit by MFIs

6.15 IMPACT OF MICROFINANCE ON THE POOR

This section sought to examine how loans granted by the MFIs to their clients have impacted on the client in terms of reducing their poverty level. The respondents were asked to indicate their agreement to statements regarding the loans granted to them by MFIs and results are shown in Table 6.50 below. From the Table, it is revealed that loans granted to the MFI clients have contributed to expanding their businesses (EXBUS) and this was measured with a mean of 7.73. This was followed by improved finance skills (IMFIN) and this was measured with a mean of 4.44. The third impact was improved income (IMPIN) (mean = 4.37), access basic needs (ABN) (mean = 4.35), create employment (CREMP (mean = 4.32), increase savings (SAVE) (mean = 4.32) and regular loan repayment of loan (RPL) (mean = 3.36).

The above findings imply that the MFIs are impacting on the lives of their clients by enhancing the economic and social conditions of their clients. It must be noted that the real impact of microfinancing the poor is the outcome that is generated. This, therefore, makes microfinance an effective tool for poverty alleviation. To really establish the impact of microfinance on the poor, what is needed here is conducting impact assessment as identified in this study (Abiodun, Tolulope, Rahman, & Adeola, 2010:157).

Table 6.50 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
EXBUS	1235	1	5	7.73	56.537	17.500	.070
IMFIN	1235	1	5	4.44	.806	-2.254	.070
IMPIN	1235	1	5	4.37	.845	-2.145	.070
ABN	1235	1	5	4.35	.986	-1.985	.070
CREMP	1235	1	5	4.32	.973	-1.857	.070
SAVE	1235	1	5	4.21	1.188	-1.512	.070
RPL	1235	1	5	3.86	1.455	-1.060	.070
Valid N (listwise)	1235						

6.16 CREDIT RISK MANAGEMENT AND POVERTY REDUCTION

To examine the impact of credit risk management on microfinancing the poor for poverty alleviation through entrepreneurship, two main constructs were developed and these were credit risk management construct and poverty reduction construct. Even though MFIs in the Greater Accra Region were observed using landed properties and movable properties to manage their credit risk, they have also used very innovative techniques that are geared towards financing the poor. Therefore, the dimensions of credit risk management were: financial management skills (FMS), regular monitoring (RM), regular visits (RVIS), business management skills (BMS), flexible loan schedule (FLS) and training in internal control system (TICS). These variables were used as independent variables. The dimensions for poverty reduction were improved income (IMPIN), access to basic needs (ABN), create employment (CREMP), expand business (EXBUS), increased saving (SAVE), improved finances (IMFIN) and regular loan repayment (RPL). The various relationship that exists between the independent and dependent variables are shown in Table 6.51 below.

Table 6.51 Correlation Matrix for Poverty Reduction Dimensions

		IMPIN	ABN	CREMP	EXBUS	SAVE	IMFIN	RPL
IMPIN	Pearson Correlation	1	.759**	.759**	.746**	.882**	.738**	.743**
	Sig. (2-tailed)		.000	.000	.000	.000	.000	.000
	N	1235	1235	1235	1235	1235	1235	1235
ABN	Pearson Correlation	.759**	1	.972**	.885**	.921**	.888**	.906**
	Sig. (2-tailed)	.000		.000	.000	.000	.000	.000
	N	1235	1235	1235	1235	1235	1235	1235
CREMP	Pearson Correlation	.759**	.972**	1	.858**	.903**	.893**	.894**
	Sig. (2-tailed)	.000	.000		.000	.000	.000	.000
	N	1235	1235	1235	1235	1235	1235	1235
EXBUS	Pearson Correlation	.746**	.885**	.858**	1	.863**	.876**	.871**
	Sig. (2-tailed)	.000	.000	.000		.000	.000	.000
	N	1235	1235	1235	1235	1235	1235	1235
SAVE	Pearson Correlation	.882**	.921**	.903**	.863**	1	.816**	.830**
	Sig. (2-tailed)	.000	.000	.000	.000		.000	.000
	N	1235	1235	1235	1235	1235	1235	1235
IMFIN	Pearson Correlation	.738**	.888**	.893**	.876**	.816**	1	.941**
	Sig. (2-tailed)	.000	.000	.000	.000	.000		.000
	N	1235	1235	1235	1235	1235	1235	1235
RPL	Pearson Correlation	.743**	.906**	.894**	.871**	.830**	.941**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	
	N	1235	1235	1235	1235	1235	1235	1235

**. Correlation is significant at the 0.01 level (2-tailed).

From Table 6.51 above it is seen that there are significant positive relationships among the variables. For instance, it is shown in Table 6.51 that there is significant positive relationship between improved income and access to basic needs ($r = 0.759$), employment creations ($r = 0.759$), expand business ($r = 0.746$), business savings ($r = 0.882$), improved finances ($r = 0.738$) and regular loan repayment ($r = 0.743$). What these findings mean is that an increase in income as a result of micro financing through entrepreneurship would bring about an increase (improvement) in access to basic needs, employment creation, business expansion, savings, improved finances and regular loan repayment.

Table 6.52 Correlation Matrix for Entrepreneurship and Poverty Reduction

		IMPIN	FMS	RM	RVIS	BMS	FLS	TICS	DIM
IMPIN	Pearson Correlation	1	.675**	.470**	.667**	.706**	.747**	.704**	.711**
	Sig. (2-tailed)		.000	.000	.000	.000	.000	.000	.000
	N	1235	1235	1235	1235	1235	1235	1235	1235
FMS	Pearson Correlation	.675**	1	.359**	.400**	.498**	.558**	.476**	.503**
	Sig. (2-tailed)	.000		.000	.000	.000	.000	.000	.000
	N	1235	1235	1235	1235	1235	1235	1235	1235
RM	Pearson Correlation	.470**	.359**	1	.515**	.441**	.352**	.459**	.492**
	Sig. (2-tailed)	.000	.000		.000	.000	.000	.000	.000
	N	1235	1235	1235	1235	1235	1235	1235	1235
RVIS	Pearson Correlation	.667**	.400**	.515**	1	.718**	.628**	.674**	.620**
	Sig. (2-tailed)	.000	.000	.000		.000	.000	.000	.000
	N	1235	1235	1235	1235	1235	1235	1235	1235
BMS	Pearson Correlation	.706**	.498**	.441**	.718**	1	.780**	.729**	.695**
	Sig. (2-tailed)	.000	.000	.000	.000		.000	.000	.000
	N	1235	1235	1235	1235	1235	1235	1235	1235
FLS	Pearson Correlation	.747**	.558**	.352**	.628**	.780**	1	.662**	.646**
	Sig. (2-tailed)	.000	.000	.000	.000	.000		.000	.000
	N	1235	1235	1235	1235	1235	1235	1235	1235
TICS	Pearson Correlation	.704**	.476**	.459**	.674**	.729**	.662**	1	.753**
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000		.000
	N	1235	1235	1235	1235	1235	1235	1235	1235
DIM	Pearson Correlation	.711**	.503**	.492**	.620**	.695**	.646**	.753**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000	
	N	1235	1235	1235	1235	1235	1235	1235	1235

**. Correlation is significant at the 0.01 level (2-tailed).

Based on the results in Table 6.52 above, it is indeed undeniable to state that microfinancing the poor through entrepreneurship would have a positive impact on poverty reduction. Notably, microfinancing the poor would lead to employment creation, business expansion, savings and improved financial standing of the poor which eventually has an impact on poverty reduction. This goes to support the position of Ocasio (2013:3) that the provision of loans (microfinance) and other non-financial services having the poor in mind in an attempt to reduce their poverty has positive significant influence on promoting self-employment, aid business expansion and improve savings. (Mair & Marti, 2009:419) also asserts that entrepreneurship development and new venture creation are responsible for job creation, ensure growth in an economy and have a direct impact on poverty alleviation.

6.17 EXAMINING THE SIGNIFICANT DIFFERENCE OF THE INTERRELATIONSHIPS

Having established that microfinancing, the poor through entrepreneurship has a positive significant impact on poverty reduction, it is also important to examine the significance of the relationship. This is to find out how changes in credit risk management practices such as flexible loan schedule (FLS), regular monitoring (RM), regular visits (RVIS), financial management skills (FMS), business management skills (BMS) and training in internal control system (TICS) affect income (INC) of the poor hence poverty reduction. To do this, the multiple regression analysis was applied. The results are shown in Tables 6.53, 6.54 and 6.55. below

Table 6.53 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.861[a]	.742	.740	.742

a. Predictors: (Constant), DIM, RM, FMS, RVIS, FLS, TICS, BMS

Table 6.54 ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1936.350	7	276.621	502.856	.000[a]
	Residual	674.973	1227	.550		
	Total	2611.323	1234			

a. Predictors: (Constant), DIM, RM, FMS, RVIS, FLS, TICS, BMS

b. Dependent Variable: INC

Table 6.56 below shows the coefficient of determination which explains the extent of which changes in income (dependent variable) can be explained by changes in the independent variables, (flexible loan schedule (FLS), regular monitoring (RM), regular visits (RVIS), financial management skills (FMS), business management skills (BMS) and training in internal control system (TICS). The independent variable explains that 95.5% of the effects of credit risk management on income is contributed by R^2. This implies that the other variables that were not included in this calculation contributed 4.5%. The multiple regression model shows that taking all the variables into consideration at a zero constant, the rate of income will be 4.5%

Table 6.55 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.298	.130		-17.725	.000
	FMS	.285	.017	.300	16.499	.000
	RM	.044	.019	.041	2.305	.021
	RVIS	.286	.039	.169	7.365	.000
	BMS	.004	.048	.003	.094	.925
	FLS	.382	.036	.266	10.549	.000
	TICS	.209	.043	.124	4.900	.000
	DIM	.282	.041	.167	6.885	.000

a. Dependent Variable: IMPIN

From Table 6.55 above, taking all the independent variables at zero, then a unit increase in financial management skills leads to 0.285 increase in income, increased regular monitoring leads to 0.044 increase in income. Also, a unit increase in regular visit leads to 0.286 increase in income, a unit increase in business management skills will bring about 0.04 increase in income.

Likewise, a unit increase in flexible repayment schedule will result in 0.382 increase in income and a unit increase in training in internal controls will result in 209 increase in income. The findings above seek to suggest that credit risk management practices by the MFIs ensure discipline in the business and financial management. Therefore, this will bring about optimum utilisation of resources of microfinance clients which eventually results in improvement in income leading to poverty reduction. In effect, at 95% confidence level and 5% level of significance, the credit risk management practices are significant in explaining the correlation between credit risk management practices on income. Based on this outcome, it can be concluded that the observed data are consistent with the assumption that credit risk management practices have significant positive relationship with income hence the hypothesis is true and must be accepted.

6.18 CHAPTER SUMMARY

The discussion of the findings in this chapter seems to establish the impact of credit risk management practices on poverty reduction through entrepreneurship in the Greater Accra Region of Ghana. The results indicate that the management of credit risk through the of adoption of ‘entrepreneurial approach’ yields more result in poverty reduction than the traditional methods of managing credit risk such as using landed and movable properties which were found to inhibit access of the poor to microfinance services.

A total of 378 MFI officers representing 67% response rate and a total of 1,235 MFI clients representing 87% response rate were surveyed. The results indicate that MFIs in the Greater-Accra Region of Ghana provide both financial and non-financial services to their clients. Apart from the extension of microcredit to their clients which ranges between Ghc 1,000 and Ghc 5000, MFI also provides non-financial services such as entrepreneurial training and financial education. The provision of non-financial services was found to have a confidence level of 95% with 5% significance on loan repayment to MFIs.

However, the results indicated that MFIs in the Greater-Accra Region of Ghana demand landed properties (72%) movable properties (71%) and the use of cruel methods of collection (60%) as collateral which inhibit the level of access to microfinance services in the Region. Other inhibiting credit risk mechanisms include the use of non-flexible repayment schedules (39%), the use collateral substitutes (34%), lack of regular monitoring (33%) lack of dynamic incentives (19%), lack of micro insurance (18%), the use of group lending methodology (15%), usage of householder mechanisms (11%), retaining percentage of client savings (10%) and the use of individual lending methodology (0.9%).

CHAPTER 7: CONCLUSION AND RECOMMENDATIONS

7.1 INTRODUCTION

This is the final chapter of this study and it presents the key findings revealed in the analysis of data in the previous chapter. Also, the chapter establishes whether the study has achieved its stated objectives, and the research questions comprehensively answered.

Further to this, the chapter provides conclusions drawn from the relevant literature and conclusions based on the empirical research. The chapter also presents policy implication, recommendations and proposes a credit risk management framework for the management of credit risk of MFIs in the Greater Accra Region of Ghana Finally, the limitations that expose this study to weaknesses are outlined and based on the limitations, suggestions are made for further research.

The following research questions were fully addressed in arriving at the conclusions and recommendations made in this study:

1. To what extent is microcredit reaching the poor in the Greater- Accra Region of Ghana?
2. To what extent are the poor in the Greater -Accra Region of Ghana? who access microcredit utilising such financial resources for ‘entrepreneurial’ activity?
3. How effective is microfinance in promoting ‘entrepreneurial’ activity among the poor in the Greater- Accra Region of Ghana?
4. What are the main credit risks associated with the poor in the Greater- Accra Region of Ghana?
5. What are the main credit risk management techniques used by MFIs in the Greater- Accra Region of Ghana?
6. Which credit risk management practices of microfinance institutions inhibit microfinance to the poor in the Greater- Accra Region of Ghana?

7. How and to what extent do the credit risk management practices of microfinance institutions inhibit microfinance to the poor in the Greater-Accra Region of Ghana?
8. What are the best practice lessons that can be learnt from the credit risk management practices of microfinance institutions in the Greater Accra Region of Ghana?
9. What would be the key components of an effective microfinance credit risk management system that does not significantly hinder the ability of microfinance to reach the poor?

7.2 CONCLUSIONS BASED ON THE LITERATURE REVIEW

Extensive literature reviews were conducted to examine the impact of credit risk management practices on microfinancing the poor for poverty alleviation through entrepreneurship in the Greater Accra Region of Ghana. Though this study identified some research gaps in the literature, there were many instances where the findings of this study were consistent with that of the other researchers. The following conclusions have been drawn in line with the literature review.

7.2.1 EXTENT TO WHICH MICROFINANCE IS REACHING OUT TO THE POOR

The literature revealed that financial intermediaries or arrangement which is commonly known as microfinance have come to serve the need of the poor by providing them with microloans and other financial services that have the capability of reducing their poverty and vulnerability to it (Copestake, 2007:1721; Khavul, 2010:58; Korankye, 2012:135; Mahmood, Hussain &Matlay, 2014:231). It was further found that MFIs provide microfinance to the entrepreneurial poor due to their exclusion from the formal financial systems (Lash, 2008:93; Deb & Suri, 2013:268).

7.2.2 EXTENT TO WHICH THE POOR UTILISES FINANCIAL RESOURCES FOR ENTREPRENEURIAL ACTIVITIES

In the literature, it was revealed that the poor utilises financial resources for entrepreneurial activities by diversifying their livelihood options and increase their economic opportunities, which augment and stabilize their income as they accumulate various kinds of social, human, financial, and physical assets (Gobind, Allah, Mohammad, & Riaz, 2008:184;Messomo Elle, 2012;Ejaz & Ramzan, 2012:305) Furthermore, it was found that, the provision of loans and other financial services having the poor in mind impacts on their poverty through the promotion of self-employment and entrepreneurship and (Ocasio, 2013:3).

These financial services according to Dzansi and Atiase, 2014:346) involves the provision of services such as savings, microloans,insurance,payment services and money transfers to poor people living either in rural or urban areas who are unable to access such services from the formal financial intermediaries such as banks.

7.2.3 EFFECTIVENESS OF MICROFINANCE IN PROMOTING ENTREPRENEURIAL ACTIVITY AMONG THE POOR

The literature found that the effectiveness of microfinance in promoting entrepreneurial activity among the poor is for MFIs to have proximity to clients, provide adequate loans that are timely, accessible, and affordable to the poor (Egyir, 2010:19;Addae-Korankye, 2012:135). It was also found that the effectiveness of promoting entrepreneurial activity among the poor is to provide opportunity for the poor set up small businesses to contribute to income and employment generation (Dalglish, 2008:55;Khavul, 2010:58).

7.2.4 THE MAIN CREDIT RISKS ASSOCIATED WITH THE POOR

The literature revealed that microfinance credit risk is the risk of default in the sense that the borrower will be unable to meet payment terms of the loan taken as agreed in the loan contract due to the vulnerability and shocks that are peculiar to the poor (Dubrana, 2010; Bodla & Verma, 2009:47; Baklouti & Abdelfettah, 2013:9). It was found that the main credit risks associated with the poor are Transaction risk (Yiannaki, 2012:406) and portfolio risk (Goldberg & Palladini, 2010:7). A Transaction risk is related to an individual or institutional borrower that an MFI is transacting a business with and that the borrower may be unable or is unwilling to meet repayment terms as agreed in the loan agreement (Yiannaki, 2012:420). On the other hand, a portfolio risk is a risk bearing factors that are inherent in the portfolio of an MFI itself and this can result in loss of income or capital from a segment of the portfolio (Goldberg & Palladini, 2010:7). Furthermore, the source of Microfinance credit risk can either come from the borrower or the lender attributed to default in microfinance (Colquitt, 2007:265).

7.2.5 CREDIT RISK MANAGEMENT PRACTICES OF MFIS

It was revealed that the key mechanisms for credit risk in MFIs are enforcing loan covenant which includes guarantee from third parties, the use of collateral substitutes, flexible loan scheduling well as group guarantees (Baklouti & Abdelfettah, 2013:9).

It was also found that quick follow-ups on loan arrears, frequent visits to borrowers. regular loan monitoring, visits to borrowers' businesses and homes, proper and adequate appraisal, proper self-client selection, third party guarantee and solidarity group lending are most effective in lending to the poor (Gadiyar, 2009;Ayayi, 2012:37;Lee, Jusup, Podobnik, & Iwasa, 2015:1).

7.3 EMPIRICAL FINDINGS

This section sought to provide a conclusion to the empirical findings of this study. The empirical findings were obtained from the data analysis in the previous chapter. The findings presented in this section are in line with the research questions. The underlying factor upon which the findings were derived and how the findings were arrived at are also presented.

7.3.1 RESEARCH QUESTION 1

To what extent is microcredit reaching the poor in the Greater-Accra Region of Ghana? In addressing this particular question, percentage analysis and descriptive statistics were conducted with data obtained from both microfinance officers and clients.

It was revealed in Table 6.15 that 81% of the microfinance officers strongly agreed that MFIs in the Greater-Accra Region of Ghana are reaching out to the poor. At the same time, Table 6.40 also revealed that 74.5% of the microfinance clients agreed that MFIs in the Greater-Accra Region of Ghana are reaching out to the poor.

The conclusion drawn: It is therefore concluded in the light of the above finding that, MFIs are reaching out to the poor in the Greater-Accra Region of Ghana.

7.3.2 RESEARCH QUESTION 2

To what extent are the poor in Ghana who access microcredit utilising such financial resources for entrepreneurial activity? In other words, are the poor in the Greater-Accra Region of Ghana who access microfinance really utilising such financial resources for 'entrepreneurial' activity? In addressing this question, percentage analysis and descriptive statistics were conducted with data obtained from both microfinance officers and clients.

It was revealed that 90% of the microfinance clients agreed that they used the loans taken from the Microfinance Institutions mainly for business purposes as found in Table 6.48. It was also revealed in Table 6.20 that 60.1% of the microfinance officers agreed that the loans provided by the MFIs to their clients always go into entrepreneurial activities.

The conclusion drawn: Based on the above finding, it is concluded that the poor in the Greater-Accra Region of Ghana who access microcredit are utilising such financial resources for entrepreneurial activity.

7.3.3 RESEARCH QUESTION 3

How effective is microfinance in promoting entrepreneurial activity among the poor in the Greater-Accra Region of Ghana? In answering this question, percentage analysis and descriptive statistics were conducted on data obtained from both microfinance officers and clients. It was found that all the microfinance officers (378) agreed that microfinance is the most effective tool for promoting entrepreneurship among poor in the Greater-Accra Region of Ghana. As evidence to how the question was addressed, the descriptive statistics conducted (see Table 6.48) revealed that loans granted to the microfinance clients are used for entrepreneurial purposes.

The conclusion drawn: Based on the foregoing finding, it is concluded that microfinance is effective in promoting entrepreneurial activity among the poor in the Greater-Accra Region of Ghana.

7.3.4 RESEARCH QUESTION 4

What are the main credit risks associated with the poor in the Greater-Accra

Region of Ghana? In answering this question, percentage analysis and descriptive statistics were conducted with data obtained from microfinance officers. It was found that all the microfinance officers agreed that the growth trend of loan default is major credit risk challenge associated with the poor in the Greater-Accra Region of Ghana and this endangers the financial sustainability of microfinance institutions (See Table 6.23).

The conclusion drawn: In the light of the finding, it is concluded that loan default is the main credit risk associated with the poor in the Greater-Accra Region of Ghana.

7.3.5 RESEARCH QUESTION 5

What are the main credit risk management techniques used by MFIs in Ghana? In addressing this question, percentage analysis and descriptive statistics were conducted with data obtained from microfinance officers. It was revealed in Table 6.26 that the mechanisms used by the MFIs in controlling loan defaults are enforcement of credit policies (22.8%), quick follow-ups on loan arrears (17.7%), client self-selection mechanism (13%) and the use of client loan repayment record (12.4%). The rest are forming solidarity groups (11.6%), assessing of three years' client income data (7.1%). Also the finding revealed as evident in Table 6.27 that the top 6 credit risk management techniques used by the MFIs are: (1) the use of landed property (WA = 0.95); (2) the use of movable properties as collateral(WA=92) (3) group lending methodology (WA = 0.91); (4) dynamics incentive mechanism (WA = 0.88); (5) flexible repayment schedules (WA = 0.85); and (6) regular on-site visits (WA = 0.81), (7) insurance cover (WA = 0.79); (8) provision of non-financial services (WA = 0.74); and (9) collateral substitutes (WA = 0.65).

Conclusion drawn: In the light of the finding, the study concludes that, the top credit risk management techniques used by MFIs in the Greater-Accra Region of

Ghana currently are the use of landed property, the use of movable properties as collateral, group lending methodology, dynamics incentive mechanism, flexible repayment schedules, regular on-site visits, insurance cover, provision of non-financial services, and the use of collateral substitutes**.**

7.3.6 RESEARCH QUESTION 6

Which, how and to what extent do credit risk management practices of microfinance institutions inhibit microfinance to the poor in the Greater-Accra Region of Ghana? In addressing this question, percentage analysis and descriptive statistics were conducted with data obtained from microfinance officers.

In Table 6.28, it was revealed that the main credit risk management practices that inhibit microfinancing to the poor are: the use of a landed property as collateral, the use of movable properties as collateral and the use of cruel methods of credit collection.

The conclusion drawn: It is concluded that the use of landed property, movable properties and of cruel methods of collection credit inhibit access of the poor to microfinance services in the region. It is therefore advised that MFIs focus on pro-poor credit risk management techniques such as the acceptance of collateral substitutes, entrepreneurial training, regular business visits and loan monitoring, and the adoption of flexible loan scheduling methods to meet the individual and business needs of the entrepreneurial poor in the region.

7.3.7 RESEARCH QUESTION 7

What are the best practice lessons that can be learnt from the credit risk management practices of microfinance institutions in Ghana? In answering this question, percentage analysis and descriptive statistics were conducted with data obtained from microfinance officers.

To understand which practice lessons that can be learnt from the credit risk management practices of microfinance institutions in Ghana, the study test impact of credit risk management on poverty alleviation. It was found that microfinancing the poor through entrepreneurship has a positive significant impact on poverty reduction, it is also important to examine the significance of the relationship. To do this, the multiple regression analysis was applied. The results are shown in Tables 6.52,6.53 and 6.54 respectively.

It was found that credit risk management practices such as flexible loan schedule, regular monitoring, regular visits, financial management skills, business management skills and training in internal control system affect the income of the poor hence poverty reduction. It was found that these credit risk management techniques enable the microfinance clients to create employment, expand business, improve their income, improved finances, access basic needs, increase saving and observe regular loan repayment.

The conclusion drawn: In the light of the above finding, it is concluded that credit risk management practices such as flexible loan schedule, regular monitoring, regular visits, financial management skills, business management skills and training in internal control system which are all entrepreneurial in nature significantly reduce poverty.

7.4 POLICY IMPLICATIONS AND RECOMMENDATIONS

The study has made deep intuitive understanding of issues on credit risk management on microfinancing the poor for poverty alleviation through entrepreneurship. The study highlights issues that must inform policy direction of MFIs on poverty alleviation. Indeed, it has now been made evidently clear that credit risk management has significant impact on poverty alleviation if only the credit risk mechanisms of MFIs are focused on empowering the poor through entrepreneurship. The implication of this to policy makers is that microfinancing and credit risk management need to be pro-poor rather than any other methods that are currently used which is found to inhibit access of the poor to credit.

Further to the foregoing insights, the study is also informing policy because even though it has been found that the MFIs in the Greater-Accra Region of Ghana are contributing to poverty alleviation, the impact is still not adequate to eradicate poverty considering the enormity of the problem and the inability of the MFIs to extend their services to the rural areas.

MFIs in the Greater-Accra Region of Ghana need to see themselves as more rural-focused rather than what is currently observed where almost all their branches are located in the cities and regional capitals. The study has established that out of the 385 licensed MFIs in Ghana, 66% of them are located in the Greater Accra Region and are operational mainly in the urban areas. Meanwhile over 1.8 million representing 62% of those living below the poverty line in Ghana live in the rural areas (Ghana Statistical Service, 2014).

Therefore, if the dominance of MFIs is only felt in urban the peri-urban areas, then this practice is likely to defeat the purpose of microfinancing the poor. The reasons for the dominance of the MFIs in the cities or urban areas leaves much to be desired. So long as the MFIs are far from the rural poor, the reality of microfinance being delivered at the doorstep of the poor for poverty alleviation will elusive.

The foregoing insights provide an opportunity for policy makers especially MFIs, the government, Non-governmental organisations (NGOs) and other stakeholders on how to deliver microfinance close to the ‘door-steps’ of the poor. In the light of this and based on the findings revealed in this study, the following recommendations are provided for possible consideration and implementation by the MFIs.

7.5 RECOMMENDATIONS

The recommendations provided in this section are multifaceted in order to address the issue of poverty holistically and effectively. Therefore, the recommendations have been categorised in terms of stakeholder responsibility.

7.5.1 RECOMMENDATIONS TO THE GOVERNMENT

7.5.1.1 Provision of Infrastructure and Social Amenities in Rural Areas

According to the findings, the MFIs are more dominant in the cities and urban areas where poverty levels are relatively lower. It must be noted that electricity, transport, water and information communication technology are considered major factors in rural development and small business development and growth.

The availability of good road and transport network, cheap, reliable and efficient electricity and other social amenities in order to facilitate movement of goods and raw materials, promote market activities in the rural areas, are the impetus for attracting investment into the rural areas and promoting entrepreneurship. Creating congenial and conducive environment for small businesses in the rural areas would serve as catalyst for attracting more outreach of MFIs in the rural areas. Therefore, the government should take a bold decision and implement initiatives in ensuring the development of the rural areas in Ghana. The government must ensure that problems that hinder smooth operation of businesses in the rural areas are dealt with. They should ensure the availability, efficient and reliability of Internet and communication network to support growth of businesses in the rural areas in Ghana.

The government should also provide tax incentives for MFIs which would attract, motivate and support entrepreneurial and microfinance development. The government can do this by providing tax holidays, tax reliefs and lowering of tax rates for new businesses including the MFIs so as to reduce cost of operation in the rural area and start-up cost, especially for new ventures.

7.5.1.2 Review of Regulatory and Legal Framework

The government should create favourable and supportive legal environment that promote the development and growth of the microfinance industry. Some of the regulatory and legal policies need an urgent attention and review. For instance, a review of the existing financial regulatory and legal framework so as to ensure the mainstreaming of microfinance institutions into the financial system in the country.

There is the need to review supervisory and regulatory policies, procedures and frameworks to ensure efficient and effective approaches to supervisory and regulations governing microfinance institutions in the country. The existing regulatory and legal framework often inhibit the outreach, product innovation and ultimate performance of MFIs.

There should be clearly defined guidelines for operations among the apex microfinance bodies such the Association of Rural Banks (ARB), ARB Apex Bank, Association of Financial NGOs (ASSFIN), Ghana Cooperative Credit Unions Association (CUA), Ghana Cooperative Susu Collectors Association (GCSCA) among others. Furthermore, the legal framework should be reviewed to ensure progressively integrating the MFIs into domestic as well as foreign capital markets so as to provide support for expanding the outreach and performance of the MFIs.

7.5.1.3 Developing Entrepreneurial Mind-set

The success of any entrepreneurship drive largely depends on adequate intangible and tangible resources available to entrepreneurs as well as organisations. There is, therefore, the need to create avenues and opportunities for developing entrepreneurial attitudes, values, motivation and skills of the majority of the citizens. These are pre-requisite for successful promotion of entrepreneurship.

The government should make skill development and training, a priority for women and the youth in the country. This can be undertaken by strengthening and supporting national technical and vocational educational institutions, providing them with the needed financial, human resource and logistics to adequately enable them to live up to expectation. The government should institute an effective national entrepreneurship programme for the youth.

The current Youth Entrepreneurship Scheme (YES) in Ghana should be seen to engage all the youth especially those in the rural settings in developing their entrepreneurial skills. The Government also need to incorporate entrepreneurship as a compulsory subject of study into the educational curriculum at all levels of the Ghanaian educational system.

7.5.2 RECOMMENDATIONS TO MICROFINANCE INSTITUTIONS

7.5.2.1 Designing Appropriate Financial Products for the Poor

MFIs should design appropriate financial products to meet the needs of clients and provide delivery mechanisms that reflect the realities of the poor. This demands that the MFIs must understand the financial needs of existing clients as well as potential clients. This would enable MFIs to develop and match appropriate products with the right methodology to meet the diverse needs of their clients. Furthermore, MFIs should provide funding and skills training arrangement for the youth and women and these arrangements must be market-driven that would enable them to engage in active entrepreneurial activities.

7.5.2.2 Consolidation of Financial Services in the Rural Areas

It has been found that poverty is more prevalent in the rural areas and despite this problem, MFIs are dominant in the urban peri-urban and areas of Ghana. Therefore, the MFIs should intensify and consolidate their efforts in providing financial services in the rural areas. MFIs should reach out to the poor by employing innovative credit risk management strategies.

The strategies that have proven effective in impacting positively on poverty alleviation in this study are group lending for group lending for loans, individual lending and dynamic incentives for individual loans, regular monitoring and visits, regular and flexible repayment schedule, providing entrepreneurship skills, financial management skills and helping their clients to develop internal control systems.

These, in the end, would lead to business expansion, improved income, improved savings and regular repayment of loans as found in this study. In effect, microfinancing the poor should be based on developing the managerial and technical skills of the microfinance clients. Providing these do not only develop the expertise of microfinance clients but also develop the economic capability and ability of the clients. This would contribute to improved and valuable relationship between the MFIs and their clients. The resultant effect would be a win-win for both the MFIs and microfinance clients.

7.5.2.3 Effective Coordination among MFIs and Allied Institutions

Currently, there are no formal bodies that are fully responsible for the coordination of all activities that are associated with MFIs. There is no forum or platform for dialogue among key stakeholders on programme and policy issues. Due to this, there has been duplication, fragmentation, and inadequate collaboration among MMDAs, MDAs, microfinance services providers, development partners and end-users of microfinance. There is, therefore, the need to have an effective coordination and collaboration among these stakeholders. Additionally, there is the need to strengthen GHAMFIN in serving as an umbrella body as well as microfinance apex institution and ensuring that best practices and standards for the microfinance sector are developed and transferred to member-institutions.

7.5.3 OTHER STAKEHOLDERS

7.5.3.1 Promotion of Entrepreneurship Research and Development

There is the need to promote entrepreneurship through research and development (R&D) so that, the right incentives and funding are provided to commercialise the research and development. This requires investments in research and development that support technology, competitiveness, innovativeness, creativity, and value creation. To do this, there is the need to bring together the academia, business community, professionals, government, and donor agencies in providing supports in terms of financing, equipment and technical development.

7.6 PROPOSED CREDIT RISK MANAGEMENT FRAMEWORK FOR MFIS

Based on the finding of this study that credit risk management practices in microfinancing the poor positively impact on poverty alleviation through entrepreneurship, the following credit risk management framework is proposed for MFIs.

The framework operates clockwise in a cyclical rotation and inside the circle is poverty. It is a system of interconnected activities to be undertaken by MFIs to have the desired impact on poverty reduction. What it means is that, as the framework continues to operate cyclically in that direction, poverty also continues to shrink until total reduction or evidence of it is experienced in the lives of the MFI clients. Further explanation of the framework is given.

Figure 7.1 Credit Risk Management Framework

1. **Develop product** – MFIs should develop well-designed loan based on the needs of the poor.

2. **Borrower screening –** MFIs should screen borrowers to ascertain their orientations and mind-sets towards entrepreneurial activity. This assessment should also be used to measure their poverty levels.

3. **Security** – MFIs should undertake measures such as securing insurance cover for the loan. Here, collateral security can be taken to secure the loan. However, collateral substitutes such as block saving (retaining percentage of savings, deposits or loans) should be encouraged. Flexible and pro-poor

collateral security arrangements should be made to reduce the possibility of wilful default.

4. **Flexible loan schedule** – MFIs should provide flexible repayment schedule based on the capability of the client.

5. **Entrepreneurial skills** – Providing entrepreneurship skills, financial management skills and helping clients to develop internal control systems. The aim of MFIs should be developing the managerial and technical skills of the microfinance clients.

6. **Timely loan Disbursement** – After providing the necessary managerial and technical expertise, the loan should be disbursed on timely manner so as to meet the purpose of it.

7. **Regular on-site visits and monitoring** – regular monitoring and visits should be undertaken by senior management. Active oversight on repayment, progress of client's business should be closely monitored. Clear collection guideline and procedures should be outlined to ensure good portfolio reporting for prompt corrective measures to be taken to avoid loan delinquency. Regular on-sight visits would also ensure that the loan is not diverted but is utilised for business purpose as per the loan terms.

8. **Evaluation** – Evaluation is now conducted to find out the real impact of the loan on the client. The evaluation should be done based on the income being generated, savings and loan repayment. At this stage, if the impact is not significant, the loan balance is re-packaged with additional support to making it more bearable and impactful to the clients.

7.7 CHAPTER SUMMARY

The study sought to examine the impact of credit risk management practices on microfinancing the poor for poverty alleviation through entrepreneurship. To this end, the study provided more insights into the extent to which microfinancing is reaching the poor in the Greater Accra Region of Ghana and the credit risk associated with microfinancing the poor. The study further found out how the associated credit risks are managed by the MFIs in the Greater Accra Region. Having dealt with these, the study has established that that credit risk management practices such as flexible loan schedule, regular monitoring, regular visits, financial management skills, business management skills and training in internal control system affect income of the poor thereby positively contributing to poverty reduction. These enable the microfinance clients to create employment, expand business, improve their income, improved finances, access to basic needs, increase saving and regular loan repayment.

7.8 LIMITATIONS OF THE STUDY

The study entails certain limitations which point to the potential weaknesses of the study. The limitations stem from lack of adequate data on the activities of the MFIs as well as small businesses (microfinance clients). Most of the MFIs do not have up-to-date operational data on their activities. For this reason, data were restricted to mainly the primary data sourced through the questionnaire administration. SMMEs were also found not to have adequate financial data on their business activities.

Therefore, the authenticity of the data is dependent on the accuracy of the data obtained from the questionnaires retrieved as at the time of the study. The results thereon and the subsequent interpretation was completely rigid and viewed from the perspective of the MFIs and their clients in the Greater Accra Region of Ghana. This has limited the extent of assessment in real terms how the credit risk management practices in microfinancing the poor have impacted on poverty alleviation in the Greater Accra Region of Ghana.

Likewise, the income levels, capital invested in business, savings made and expenditure of the microfinance clients could also not be assessed. Last but not the least, all the MFIs are located in the city of Accra where poverty levels are generally lower.

7.9 SUGGESTIONS FOR FURTHER STUDIES

Based on the limitations, the following suggestions are made for further studies. Firstly, it is suggested for future researchers who may embark on similar study to include operational data on the various MFIs should they have access to those data. Also, future studies should also seek to undertake a comparative study involving the ten regions of Ghana to determine the impact of credit risk management techniques of MFIs in each region. This would help provide an extensive but wide-reaching result of the subject matter which can be generalised to the whole country.

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APPENDIX 1

Instruction: Pl
appropriate.

17. If you say 'yes' which o
a) Per capita house hol
b) Per capita household
c) Employment creatio
d) Others (please specif

b) 20 – 5
c) 51 – 1
d) More
9. Which of
a) Great
b) Centr

of microfinance
a) Strongly agr
b) Slightly agr
c) Not certain
d) Slightly disa
e) Strongly dis

Other (please state)

borrowers' n
a) Strongly
b) Slightly a
c) Not sure
d) Slightly c
e) Strongly

58. Do you agree that prov
positively correlate with r

a) Strongly agree [ ]
b) Slightly agree [ ]
c) Not sure [ ]
d) Slightly disagree [ ]
e) Strongly agree [ ]