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Contemporary Internal Challenges and Financial Sustainability: Evidence from Microfinance Institutions in Ghana

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Abstract:
This paper investigated the relationship between contemporary internal challenges and financial sustainability of microfinance institutions in Ghana. The objective of this paper was to assess the level of contemporary internal challenges and financial sustainability and subsequently investigate how the internal challenges influence the level of financial sustainability. Institutional framework, capacity building and funding and credit delivery management were used to measure the internal challenges. The study sought to contribute to quantitative estimation of the relationship between these variables given the sound theoretical foundation with no empirical evidence to support or disaffirm the theory in the Ghanaian context. The study used mean scale and standard multiple regression analysis to address the research problem and achieve the objective. A 40 microfinance institutions across Ghana and sample size of 384 staff of these institutions were used via multi-stage sampling technique. It was found that microfinance institutions have high level of contemporary internal challenges with weak financial sustainability. Moreover, it was revealed that all the three internal challenges had significant negative influence on the level of financial sustainability. It was concluded that the level of contemporary internal challenges are threats to financial sustainability of microfinance institutions in Ghana.
It is recommended that microfinance institutions should critically review their financial sustainability indicators, seek for external financial support and minimise overreliance on customers' deposit. Management should practically develop and implement policies to strengthen institutional framework, capacity building and credit delivery. Bank of Ghana should develop policy on compulsory savings and reserves by all microfinance institutions with Bank of Ghana to minimise consequence of losing customers' deposit on liquidation.

Keywords: *Contemporary internal challenges, institutional framework, capacity building and funding, credit delivery and management and financial sustainability*

1. Introduction

Credit facilities play significant role for the development of the informal sector and consequently translate in to national development. Knowing this, most countries especially the developing ones have opened up structures for the influx of microfinance businesses. According to Awojobi (2011), the promises of microfinance in economic growth and poverty reduction have placed both the number of microfinance institutions (MFIs) and the subject of microfinance at the apex of the agenda in most evolving countries.

Empirical evidences have indicated that microfinance helps households that are poor to meet their basic needs and serves as a protection against risks, it therefore has an association with improvements in the welfare of household in economies (Boateng, 2015; Khandker, 2005; Robinson, 2001). Also, gender activists contend that microfinance helps empower women by supporting economic participation of women and thus fosters gender equity. Microfinance sector seeks to create institutions that offer financial services to the less privileged or the poor, who are often ignored by the formal banking institutions. Since the poor are usually let off of the main stream banking sector of most economies, MFIs are seen as response to dealing with this failure (Littlefield, 2006).

Similar to all other credit institutions, microfinance institutions require sound and sustainability financial health to be able to have strong going concern prospect to perform their roles and continuously feed the vulnerable with financial assistance (Kinde, 2012). The ability to unearth the key determinants of the financial sustainability of the microfinance institutions is likened to the ability to sustain poverty reduction program of the masses. Although financial sustainability is not the only component of sustainability, it is an anchor for the continuity of microfinance operations and to play their significance role in poverty alleviation and economic growth. Giving the sensitivity of financial sustainability, researchers have taken keen interest to explore the determinants of financial sustainability (Bogan, 2009; Kinde, 2012; Magali, 2013 and Sekabira, 2013). This research interest is also important to the Ghanaian microfinance sector.

Notwithstanding the important role of MFIs in poverty reduction and economic growth, the microfinance sector faces a number of challenges (Asiamah & Osei, 2007). It has been revealed that most Ghanaian MFIs are increasingly collapsing in recent times. It was reported that in the first quarter of the 2013 fiscal year the number of microfinance institutions in Ghana that collapsed as a result of their inability to sustain their operations exceeds 30 (ghanabusinessnews.com, 2013). Consequently, hundreds of account holders in parts of the country have lost their savings to such institutions within the past couple of years (Domfeh, 2013). The growing fears among the Ghanaian public is becoming alarming following the microfinance scandal in Brong Ahafo region where some microfinance companies such DKM and GOD is Love could not withstand the panic withdrawals and ability to meet their obligations towards customers in terms of deposits.

This has led to widespread public apathy in depositing funds with microfinance institutions. Thus, Ghana's drive to mobilize deposits from the unbanked population and encourage savings habits and credits availability to the poor has faced serious challenges from the unsustained-financial health of some of these microfinance institutions (Domfeh, 2013). Despite these setbacks, there are still some microfinance institutions in Ghana which is still growing in outreach and performing in these turbulence times. This suggests that the current challenges in respect of financial sustainability can be examined from internal perspective. This consideration is factual because both the collapsed and healthy MFIs are operating under the same external regulatory environment and similar environmental factors. Therefore, the continuous success of some of these institutions and failure of others can be explained by internal anomalies and challenges.

However, the relationship between contemporary internal challenges and financial sustainability has not been demonstrated statistically in the Ghanaian literature. Most empirical studies have rather focused on issues including the role of the microfinance sector in economic development and poverty alleviation, explore the challenges of microfinance institution and determinants of microfinance concentration (Afrane, 2002; Gallardo, 2002; Adjei, Arun, & Hossain, 2009; Awojobi, 2011; Bateman, 2012; Nasir, 2013; Akinlawon, Otchere, Pomerantz, & Smith, 2013). It is against this backdrop that the present seeks to examine the relationship between contemporary internal challenges and financial sustainability of microfinance institutions in Ghana. The objective of this study is thus in three parts: first to determine the extent of contemporary internal challenges of microfinance institutions in Ghana; secondly to establish the level of financial sustainability of the microfinance operation in Ghana and finally to investigate the relationship between the contemporary internal challenges and financial sustainability of microfinance institutions.

2. Literature Review

As internal based study of firms, the theoretical foundation underlying this study is the action regulatory theory. The action theory assumes that entrepreneurial actions are essential to entrepreneurial outcomes (Frese, 2009). There is a contention that the actions of entrepreneurs are crucial and must be a basis for theorizing in entrepreneurship (McCullen & Shephard, 2006; Frese, 2007). The theory posits that whether an organization occupies a successful position or not is not an entirely accidental process but the outcome of actions (Frese, 2007).

A critical evaluation of the prepositions suggests that actions and inactions of the entrepreneurs determine the extent of the consequence of challenges on the survivorship of an enterprise. Relatedly, the action-regulation theory provides theoretical evidences to support the relationships between contemporary internal challenges and financial sustainability of MFIs in Ghana in two ways: first, contemporary internal challenges originate from entrepreneurial action. Secondly, the entrepreneurial action may minimize or deepen challenges which may influence the financial sustainability of MFIs. The entrepreneurial action may be directed to develop and strengthen institutional structures and frameworks, capacity enhancement and funding and credit delivery management. The effectiveness of these entrepreneurial actions would determine the entrepreneurial outcome including sustaining financial health. Following the theory, poor management of these key internal anchors (institutional framework, capacity enhancement and funding and credit delivery management) can threaten any positive entrepreneurial outcome (Gutiérrez-Nieto, Serrano-Cinca & Molinero 2009). From these the following empirical hypotheses are formulated:

- H_1: Institutional framework challenge has no significant influence on the level of financial sustainability of microfinance institutions in Ghana
- H_2: There is no significant relationship between the level of capacity building and funding challenge and the level of financial sustainability of microfinance institutions in Ghana
- H_3: Credit delivery management challenge does not significantly affects the level of financial sustainability of microfinance institutions in Ghana

This suggests that institutional framework; capacity building and funding and credit delivery management which are critical for the success of microfinance operations can also become barriers to achieving success if they are relaxed. The implication is that achieving explicit financial sustainability requires that a MFI should develop and strengthen these factors. Although the theory has demonstrated how entrepreneurial actions can influence success of microfinance institutions, critics contend that the theory is more applicable to the initial stages of the growth of a business in which business owners have the greatest influence of what happens in their firms. Later in the firm's life cycle, a personal perspective becomes much less practical (Van Gelderen, Frese, & Thurik, 2000). However, entrepreneurial actions have been operationalised to include management especially in the developing world such as Ghana where the owners are often part of management. Where even there is separation of ownership and management, the owners may still be able to influence internal policies and structures making the theory still applicable to a large extent.

Although there are theoretical reasons to investigate the relationship between contemporary internal challenges and financial sustainability, the empirical attentions are relatively not much. Among the few studies including the study conducted by Muhammad (2010). Muhammad (2010)'s study focused on the opportunities and challenges of the Pakistan microfinance sector. The author discovered that there were a lot of challenges facing the sector. Among the challenges which could be classified as internal were: increasing competition, diversified and innovative products, stability, profitability, limited management capacity of MFIs, low knowledge level, insufficient investment into agriculture development, high cost of transaction. Although, Muhammad's (2010) study came out with some useful discoveries as regards the contemporary internal challenges, the study fell short in determining how these challenges affect the financial sustainability of the MFIs. The present study thus, extends the Muhammad's (2010) by using these explored challenges and other internal challenges indicators and statistically investigates how the contemporary challenges affect financial sustainability.

A study close to the present study was that conducted by Kinde (2012). The study focused on determining factors that affect the financial sustainability of Ethiopian MFIs. However, Kinde's study was based on secondary data. Therefore, the findings were based on the economic conditions and structure of microfinance institutions and performance in Ethiopia. Besides, the indicators used as determinants are different from the contemporary challenges identified by Bank of Ghana (regulator of MFIs in Ghana). Therefore, following similar quantitative approach, the present study uses Ghanaian data with considerations of the internal challenges identified by Bank of Ghana (BOG, 2007). This would provide evidences for Ghanaian context.

In the Ghanaian context, the empirical studies have focused on areas such as the processes of implementation of microfinance interventions and the impact of the processes of implementation on businesses and households (Yeboah, 2010). One of the more related studies in the Ghanaian setting was conducted by Boateng and Agyei (2013) on the success factors, development and challenges of the microfinance industry in Ghana. The findings obtained by Boateng and Agyei (2013) indicated that, there were a number of challenges facing the MFIs in Madina, however, no quantitative analysis was performed to ascertain how these challenges influence to the success of the MFIs. This present study seeks to determine the effect of the challenges on the financial sustainability of MFIs.

Following the theoretical and empirical literature, the study operationalizes contemporary internal challenges as institutional framework challenge, capacity building and funding challenge and credit delivery management challenge. The relationship between these variables and financial sustainability is conceptualises as follows:

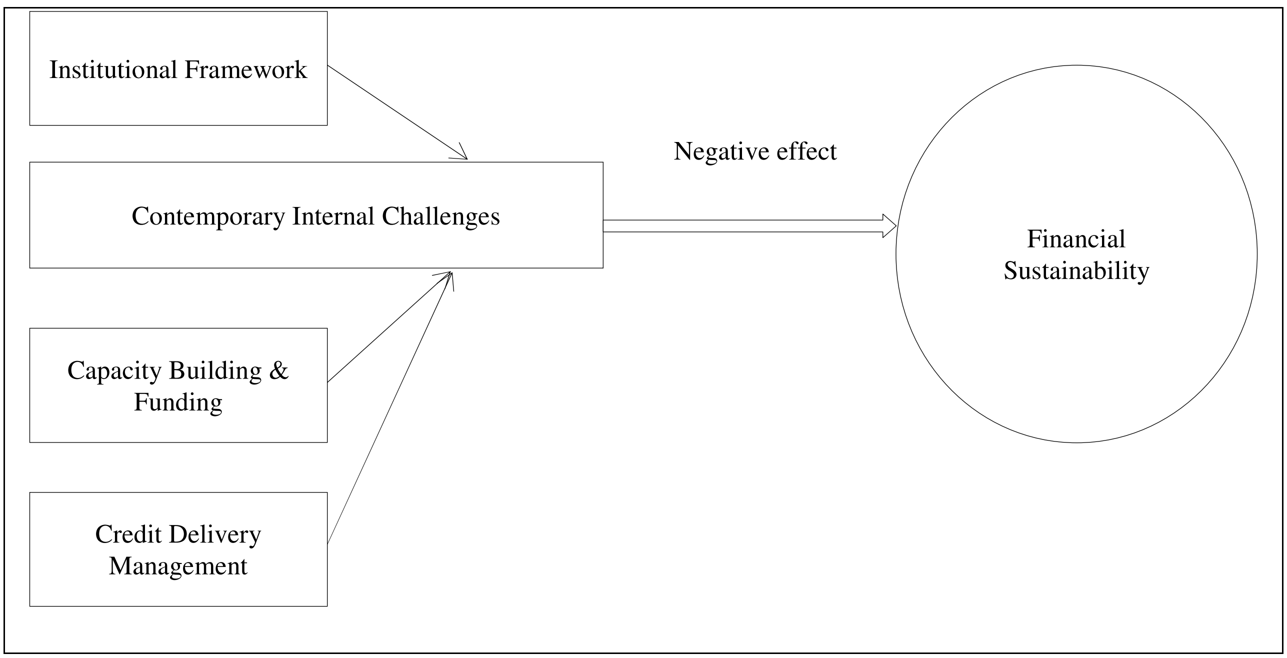

Figure 1: Framework of Contemporary Internal Challenges and Financial Sustainability

3. Methodology

The study uses pure quantitative approach or analytical procedure to conduct the study. Quantitative research approach requires the use of numerical data and the systematic empirical investigation of phenomena and quantitative properties and their relationships (Bryman & Bell, 2003). These properties are consistent with the three objectives formulated in this study. Each of the objectives requires quantitative measure of the study variables which cannot be adequately supported by qualitative approach. Cross sectional survey design is employed to support the quantitative analytical procedure. A cross sectional survey design involves the use of both cross sectional and survey methods in a single study (Nyakundi, Nyamita, & Tinega, 2014). This is suitable as the study structure requires selection of microfinance institutions (cross sections) and administer data collection instrument to large number of respondents (Survey).

The survey is applied through the use of standardized questionnaires to collect the required data of interest (Anlo, 2012, p.79). The questionnaire is presented to solicit for that about the internal contemporary challenges and financial sustainability. The internal challenges variables used in this study are selected from the working paper of Bank of Ghana: namely institutional framework challenge, capacity building and funding challenge and credit delivery management challenge (BoG, 2007). The study used a 5-point Likert Scale to assess the indicator and subsequently used to measure each component of internal contemporary challenge. For instance there are about 7 indicators, 4 indicators and 8 indicators for measuring institutional framework, capacity building and funding and credit deliver management respectively. Similarly, financial sustainability is measured using 13 indicators adapted from the literature (CIDA, 1999).

3.1. Population and Sampling

The target population of the study is the staff of microfinance institutions in Ghana. The study operationalizes microfinance institutions as those MFIs with the word ‘microfinance’ as part of their name. Therefore the target population for this study is the staff of these institutions. The study follows Krejcie and Morgan (1993) and chose sample size of 384 staff from 40 microfinance in Ghana. The study uses multi-stage sampling technique. According to Battaglia (2008), a multi-stage sampling is one in which sampling is done sequentially across two or more hierarchical levels, such as first at the county level, second at the census track level, third at the block level, fourth at the household level, and ultimately at the within-household level. This sampling technique is applied in this study by first selecting the microfinance companies and finally the staff to respond to the questionnaires. In both case simple random technique is applied.

3.2. Data Analysis

The study uses Statistical Package for Social Scientists (SPSS) as the statistical tools in organizing the data. Descriptive statistics and standard multiple regression analyses are used to address the three specific objectives of the study. The first two objectives which sought to determine the level of contemporary internal challenges and financial sustainability are analysed using mean scale score (Dess, Lumpkin & McFarlin, 2005 and Yeboah, 2011) generated from descriptive statistics. Following these authors the cut-off point for assessing the minimum and maximum point on the scale is the midpoint minus 0.1. The midpoint for scale of 1 to 5 is 3, therefore the cut-off point is 2.9 (3.0-0.1). Thus, mean value of 1 to 2.9 represents low level and 3 to 5 denotes high region. However, due to the sensitivity of financial sustainability, the study applies prudent concept and conservatism assumption so as not to overstate the level of financial sustainability and understate the internal challenge. Therefore, a mean score of 3.0 to 3.4 are considered as weak in the high region while 3.5 to 5 are considered as strong high for financial sustainability, however, 3 to 5 are recognised as high for the internal challenge variables.

The third objective that sought to establish relationship between contemporary internal challenge and financial sustainability is analysed using standard multiple regression. The general model for investigating this relationship is expressed as:

$$Y_t = \alpha_i + \beta_1 X + e_t \qquad (1)$$

Where

‘Y’ is the response variable or the dependent variables;

α_i is the constant or intercept of the model;

β_1 the individual coefficients of the explanatory variables;

X is the explanatory or independent variables;

e_t is the error term or component.

The working model for the investigation is derived by substituting the study variables into the eqn (1) to obtain eqn (2) as follows:

$$FS_t = \alpha_i + \beta_1 IF + \beta_2 CBF + \beta_3 CDM + e_t (1)$$

Where

‘FS’ is Financial Sustainability and denotes the dependent variables;

‘IF’ is Institutional framework challenge which is an independent variable;

‘CBF’ is Capacity Building & Funding challenge which is also an independent variable;

‘CDM’ is Credit Delivery Management challenge and denotes an independent variable;

The rest of the variables are same as described under the first model

The coefficient of each of the independent variables: β_1, β_2 and β_3 shows the nature and significant of the relationship. A significant coefficient with positive value indicates significant positive relationship and vice-versa.

4. Results and Discussions

The details of the results are reported in tables. The results and discussions are presented based on the specific objectives of the study. They are reported as follows:

4.1. Level of Contemporary Internal Challenges of Microfinance Institutions in Ghana

This is the first objective of the study. The study operationalised internal challenges into institutional framework challenge, capacity building and funding challenge and credit delivery management challenge. As discussed under the methodology, a mean scale was used to assess the levels of these variables. The results from the data analysis showed that the respondents in their opinion consider institutional framework, capacity enhancement and funding, credit delivery and management as significant contemporary internal challenges MFIs face. The mean scores of these three variables exceeded the midpoint mean (cut-off mean).

As shown in Table 1, respondents generally emphasized relatively high levels of institutional framework challenge among the players of the microfinance sector ($\bar{X}$ = 3.02). $\bar{X}$ denotes the mean value of the dimension. This suggests that microfinance institutions in

Ghana face high institutional framework challenge. The implication is that the institutions do not have adequate institutional directions and framework to support their mandate. This may have significant effect on their operation and sustainability or going concern assumptions.

The second dimension of the contemporary internal challenge is capacity building and funding. It also examines the level of staffing and competency challenges, in-house training facilities and strength, funding challenges and string attached to available funds. It is evident from the analysis that the microfinance institutions admit that capacity and funding is one of the major challenges they face. The mean value($\bar{X}$= 3.53) crosses the cut-off of 2.9 and this demonstrates that they institutions are confronted by staffing, competency, technical and financial challenges. This suggests that the respondents believe that the microfinance institutions do not have the strong staffing and technical capacity as well as adequate funding to championing their course of vision and mandates. It implies that these institutions lack the requisite capacity to provide the quality of financial support services to their target group.

The third component or dimension of the contemporary internal challenge is credit delivery and management. This measures the weaknesses in the current strategies for credit delivery and management in terms of the inadequacy and inefficiency in credit diversifications and the likelihood of not fully meeting the rather varying demands of the market and different categories of customers. Per the results from the Table 1 the respondents considered credit delivery and management as key contemporary internal challenge they face in their microfinance operation. This is evident in the high mean score ($\bar{X}$= 3.56). This means that the respondents suffer greatly from malfunctioning of their credit strategies. They are unable to develop effective and efficient credit delivery systems to meet the needs of the complex customers. By intuition, it is expected that this high credit delivery and management found among the respondents hinders the sustainability of these microfinance institutions. The empirical verification of this intuitive deduction is the subject of objective three.

The results from the study support the review paper of Bank of Ghana (2007) which concluded among others that institutional framework, capacity building and funding and credit delivery and management are some of the contemporary challenges microfinance institutions in Ghana face. Moreover, the findings are consistent with the findings of Boateng and Agyei (2013). Boateng and Agyei revealed that the major challenges facing MFIs in Ghana include lack of solid credit risk management policy. These are part of the indicators under the credit delivery and management used in this study. The findings also affirm the results of the study conducted by Boateng (2015). Boateng (2015) also found institutional framework indicators such as poor corporate governance and socio-cultural misconceptions as some of the challenges of MFIs in Ghana. However, Adaju, (2006), Gyamfi (2012) and Boateng and Boateng (2014) identified limited support for institutional structure and human capacity as some of the contemporary challenges.

CC Dimension	Indicator	Mean
Institutional framework	InstFrame	3.02
Capacity enhancement and funding	CapacityFund	3.53
Credit delivery and management	CreditMgt	3.56

Table 1: Statistics of Contemporary Internal Challenges
**Scale (Mean): 0-2.9 = low and 3-5= high.*
Source: Field data, (2016)

4.2. Level of Financial Sustainability of Microfinance Institutions in Ghana

This is the second objective of study. The objective is examined using descriptive statistics specifically the mean scale of 1 to 5. The mean scale is divided into two regions, namely, low and high with cut-off mean separating the two regions. When the score of a dimension or component of sustainability is within the region of high, then it implies that respondents believe that they have strength in that regards and vice-versa.

It can be observed from the Table 2 that the respondents demonstrated that though the level of financial sustainability crosses the cut-off mean, it is relatively weak ($\bar{X}$= 3.15<3.5). This implies that majority of the respondents admits that although their financial institutions have some level of financial strength, the sufficiency is less desirable. The findings contribute to the conclusions by Canadian International Development Agency (2005). According to CIDA, although some of the microfinance institutions are financially sustainable; this sustainability is limited to providing and serving relative few poor and therefore requires international partners to boost their financial viability. Similarly, the results are similar to the Kinde (2012)'s assertion. According to Kinde (2012), financial sustainability is core to the overall success of microfinance institutions in achieving their primary goals. Therefore, the author (Kinde) argued that microfinance institution should strive to achieve financial sustainability. This implies that the weak financial sustainability is worrisome.

Dimensions	Indicator	Mean
Financial sustainability	FinS	3.15

Table 2: Statistical Level of Financial Sustainability of microfinance institutions in Ghana
**Scale (Mean): 0-2.9 = low and 3-5= high.*
Source: Field data, (2016)

4.3. Relationship between Level of Contemporary Internal Challenges and Level of Financial Stability

The third objective of study sought to examine the relationship between contemporary internal challenges and financial sustainability of microfinance institutions in Ghana. Since the study operationalised the contemporary internal challenges into three dimensions, the relationship is established between each of the dimensions and financial sustainability. Consistent with the illustration on the conceptual framework and the apriori, all these variables have negative influence on the financial sustainability of microfinance institutions. Credit delivery and management made the most significant contribution to sustainability (β: -0.182; Sig: 000) while capacity building and funding contributed the least (β: -0.091; Sig: 0.019) in absolute terms. The other remaining dimension, institutional framework is the second most significant dimension to explain the variance in microfinance sustainability (β: -0.115; Sig: 000) in the model 1.

Since all the dimensions in the model are significant (institutional framework and credit delivery and management at 1 percent and capacity building and funding at 5 percent), the null hypotheses of no significant influence on microfinance financial sustainability are rejected. The negative coefficients (beta) indicate that these dimensions have negative contribution to predicting financial sustainability of microfinance institutions. This implies that these dimensions are indeed part of the contemporary internal challenges that microfinance institutions face. They are therefore threats to the survival of the microfinance businesses.

By inference, holding other variables constant, 1 percent increase in credit delivery and management challenges leads to 0.182 decrease in the level of microfinance financial sustainability and vice-versa. Similarly, when the institutional framework challenges of these institutions increase by 1 percent, sustainability of the institutions is threatened by 0.115, much the same way a decrease in these challenges will lead to an increase in the level of sustainability by 0.115, all other things being equal. Capacity building and funding challenges also threaten these institutions. The coefficient suggests that a percentage increase in these challenges will decrease microfinance institutions by 0.091 and vice-versa, all other factors being constant.

	Beta(β)	Std. Error	t-stat	Sig.	R^2
Model					0.675
(Constant)	-1.239	0.113	-10.960	0.000	
IF	-0.115	0.037	-3.108	0.000	
CBF	-0.091	0.034	-2.676	0.019	
CDM	-0.182	0.036	-5.056	0.000	

Table 3: Standard Multiple Regression Analysis Summary for Dimensions of Contemporary Internal Challenges Predicting Financial Sustainability of Microfinance Institutions in Ghana
Source: Data analysis (2016): Computed from SPSS 17.0

The results are consistent with the apriori of the study as depicted in Figure 1. The findings also contribute to the action regulation theory. The findings suggest that internal factors for which the entrepreneur (owners and management) have control are determinants of the success or failure of the entrepreneurial outcome (financial sustainability). This is consistent with the assumption of the action regulation theory that entrepreneurial actions are determinants of entrepreneurial outcomes (Frese, 2009).Therefore, the assertion that the actions of entrepreneurs are crucial and must be a basis for theorizing in entrepreneurship (McCullen & Shephard, 2006; Frese, 2007) holds in this situation.

Besides, the theoretical contributions, the findings are consistent with some other empirical evidences. The results affirm the study of Bank of Ghana (2007) which concluded that institutional framework, capacity building and funding and credit delivery management are part of the contemporary challenges threatening the survivor of microfinance institutions in Ghana. The findings also support the earlier conclusions by Boateng and Agyei (2013). In the study of Boateng and Agyei (2013), the authors showed that the sampled microfinance institutions have capacity and funding challenges making it difficult to achieve continuous successes. The results are also consistent with the findings of Ruzibuka (2005). The author (Ruzibuka) identified that credit delivery was a core challenge to the survival of MFIs.

The findings however, contradict the results of Kinde (2012). Kinde found that the microfinance capital structure and staff productivity have insignificant impact on sustainability (financial) of MFIs in Ethiopia. The differences in the results and the conclusions can be accounted by differences in situational factors and environment of the microfinance institutions (Richard, 2003). In Ghana where, hundreds of account holders operating with microfinance institutions lost their savings to such institutions within the past couple of years (Domfeh, 2013), high staff capacity and funding are expected to instill customers' confidence to boost the sustainability prospects. Therefore challenges in developing such capacity can erode the sustainability as indicated in this finding. For instance, the 'DKM and God is love' scandals are evidential that currently capacity enhancement and funding would play significant role in explaining the level of sustainability if not before. Poor capacity enhancement and funding would then have significant adverse effect on the financial sustainability.

5. Conclusions and Recommendations

The study focused on contemporary internal challenges and financial sustainability of microfinance institutions. Following the analysis and key findings from the study, the study concluded that microfinance institutions in Ghana have high level of internal challenges in relation to institutional framework, capacity building and funding and credit delivery and management. Regarding the second specific objective, it is concluded that the sampled microfinance institutions had relatively weak financial sustainability level.

It is also concluded that institutional framework, capacity building and funding and credit delivery and management challenges have significant negative effect on the level of financial sustainability of microfinance institutions in Ghana.

Base on the results from the study, microfinance institutions are advised to formulate operational policies, corporate governance structures and specify roles and responsibilities as well as lines of reporting. This would strengthen the institutional framework and minimise the current challenges in the institutional framework and structures. It would also articulate and enhance their financial sustainability.With regards to the capacity building and funding, it is recommended that management should seek external funding to support operations and capacity in order to develop comprehensive and coherent training for employees taking into account their respective roles and responsibilities as well as their needs. These would not only minimise the challenge but could also beef the financial sustainability

It is further recommended that microfinance institutions should pay critical attention to building financial sustainability as it is core to sustaining the overall operation. The relative weak financial sustainability indicates overreliance on customers' deposits and therefore panic withdrawal present high degree of certainty to closure of microfinance institutions. The results present practical understanding of how the 'DKM and God is love' scandals where excessive withdrawal (panic withdrawal) contributed to the closure of the institutions. It is also recommended that the financial institutions should seek for external partners and investors to strengthen the financial sustainability. This would also strengthen their institutional frameworks, capacity building and effective credit policies as they may be criteria for accessing external support.

Bank of Ghana should also develop policy to introduce compulsory savings and reserves by microfinance institutions to minimise the risk of default of these institutions towards customers' deposit. This risk is eminent given the high level of credit management challenges and relatively low financial sustainability coupled with overreliance on customers' deposits. The compulsory savings and reserves could also provide opportunity for microfinance institutions to be financial independent and enhance their financial sustainability.It also recommended that Bank of Ghana should review their policies governing the licensing and outreach of microfinance institutions in Ghana to ensure that the sector is directed towards sustainability. The criteria for licensing and opening of additional branches should not be limited to capital requirement but also should include the ability of the microfinance institution to demonstrate strong institutional framework, capacity building and credit management policy. This would minimise operational challenges and risk and strengthen financial sustainability.

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