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ACCESSING RISKS TO MICROFINANCE INSTITUTIONS (MFIS) IN GHANA: FINDINGS FROM A RISK ASSESSMENT SURVEY OF HO MUNICIPALITY

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ABSTRACTS

Microfinance (MFIs) in Ghana may be considered a risky business. Threats emanate from an unstable macroeconomic environment, the state of security in the country, liquidity challenges, corruption and fraud, political and religious interference, and so on. However, there has been no attempt to systematically map the risks that the sector faces and understand the extent to which they pose a threat to a vibrant and healthy microfinance sector. This is a survey that seeks to assess the risks that are of concern in Ghana's microfinance sector as seen by practitioners in the face of the changing business and macroeconomic environment, as well as keeping in mind the new initiatives and developments in the micro finance sector. The study begins by examining the practitioners understanding of risks within micro finance sector in Ghana then continue to address the issues of the significant risks affecting the microfinance that are of concern to the microfinance sector for the next five (5) years. The study was based on all tier 1 and 2 MFIs operating in Ho Municipality in the Volta Region of Ghana. The biggest risks that are of threats to the microfinance sector in the next five (5) years are; credit risk, inadequate funding, staffing, macroeconomic trend/risk, regulation and management risks. Fraud, credit risk, macroeconomic trend, over indebtedness, management, reputation, interest rate and competition are ranked very high in terms of severity.

KEYWORDS: *Risks, Microfinance, and Microfinance Institutions (MFIs)*

1. INTRODUCTION

Like all financial institutions, MFIs face risks that they must manage effectively to be successful. The failure to do so can result in MFIs falling behind in terms of meeting their social and financial objectives. Microfinance in Ghana may be considered a risky business. All categories of risks may affect MFIs in Ghana, most specially liquidity and fraud risk. For example in 2013, incidents of MFIs closing down and bolting with depositors' savings have been reported in most parts of the country. With a good number of them going into liquidity challenges and others folding up as a result of corruption and fraud in the microfinance subsector in particular and banking sector in general, with clients of such firms losing their money within the period. According to National Chairman of the Ghana Association of Microfinance Companies (GAMC), Collins Amponsah-Mensah, liquidity challenges of MFIs in Ghana show that corruption and fraud in the MFIs industry subsector have included a range of unlawful and unethical practices. These include granting of unauthorized loans, the posting of fictitious credits, fraudulent transfers or withdrawals and unashamed financial theft (citted Boateng et al 2014). He further stated that over sixty (60) micro finance institutions went bankrupt in 2013 alone. This is not good for the sector and must be checked.

The purpose of the research is to assess the most important types of risks that are of concern in Ghana's microfinance sector as seen by practitioners in terms of their severity and trend in the face of the changing business and macroeconomic environment as well as keeping in mind the new initiatives and developments in the microfinance sector. The study begins by examining the practitioners understanding of risks within micro finance sector in Ghana then continue to address the following research questions; what are the significant risks affecting the microfinance sector in Ghana? What are the top five (5) risks that are of concern to the microfinance sector for the next five (5) years? And how is the risk trend like?

There are a large number of studies published about risk in general (Acheampong et al, 2012; Boateng et al 2014; Banana Skins 2011, 2014, and Aban & Zahra 2011, 2014). However, the number of empirical studies on practitioners understanding of risks within microfinance sector in Ghana is scarce. The research will therefore fill the gap by enlightening researchers on risks to microfinance providers in terms severity and trend to lay down the foundation for further work in this direction.

2. MICROFINANCE IN GHANA

Ghana has a tiered range of formal, semi-formal and informal institutions providing microfinance services to the urban and rural poor and underserved sectors of the economy. The Bank of Ghana (BoG) has the mandate to protect the interest of all depositors and ensure sanity in the overall banking system. According to the BoG Act 2004 (Act 673), as amended by Act 2007 (Act 738), MFIs have been categorized into four categories; tier 1, tier 2, 3 and tier 4 according to minimum capital requirements and licensing types to be issued. Tier 1 activities comprise those undertaken by Rural and Community Banks, Finance Houses and Savings and Loans Companies (S&L Cos). Tier 2 institutions include *Susu* companies, profit-oriented financial NGOs and other companies engaged in financial services that are taking deposits and granting loans. Tier 3 institutions include moneylenders and non-deposit taking financial NGOs. These institutions operate like finance houses using their own resources, borrowed funds or donor funds (Reiter & Peprah, 2015, and Gallardo 2001).

Table 1: Structure and Key Stakeholders of Microfinance in Ghana

Key MF Stakeholders		Laws & External Regulations	Permitted Activities
Microfinance Institutions	**Tier 1** Rural and Community Banks, S & L Companies Finance Houses	Banking Act 2004 (Act 673), as amended (Act 738), Co. Code BoG	Limited Banking services, savings, deposits, loans Limited Banking services, savings, deposits, loans
	Tier 2 Deposit taking MF/ Fin NGOs Credit Unions	NBFIs Act, 2008 (Act 774), Co. Code; BoG NBFIs Act, 2008, Law on Cooperatives (Credit Unions); Co, Code; CUA Board;	Micro-credit Deposits and loans to members only Collecting & safekeeping of clients' savings
	Tier 3 Money lenders Non-deposit taking MF/Fin NGOs. Susu Cos and other financial service providers Individual moneylenders.	NBFIs Act, 2008, BoG Dept. of Cooperatives NBFIs Act, 2008, BoG Co. Code NBFIs Act, 2008, Dept. of Cooperatives (GCSCA) NBFIs Act, 2008, BoG, Dept. of Cooperatives	Collecting & safekeeping of clients' savings Micro-credit Collecting & safekeeping of clients' savings Micro-credit
Microfinance Apex Bodies,	ARB Apex Bank	Banking Act 2004 (Act 673), as amended (Act 738), Co. Code; ARB Apex Bank Regulations, 2006 (LI 1825), Co. Code; BOG	Apex bank functions
	Ghana Microfinance Institutions Network (GHAMFIN); Association of Financial NGOs (ASSFIN) Ghana Cooperative Credit Unions Association (CUA) Ghana Cooperative Susu Collectors Association (GCSCA)	None Law on Cooperatives (Credit Unions); Registrar; BOG	Promote the growth and devpt of the MF industry Umbrella body; Training resources Umbrella body; Training resources

Source: Non-bank Financial Institutions (NBFI) Act, 2008 (Act 774)

3. LITERATURE REVIEW

Concept of Risk

Ledgerwood et al (2013), defined risk as the possibility that current and future events—expected or unanticipated—may have an adverse or harmful impact on an institution's objectives, capital, or earnings. Risk is measured in terms of impact and likelihood. According to Mbeba (2007) risk is the potential that current and future events, expected or unanticipated may have an adverse or harmful impact on the institution's capital, earnings or achievement of its objectives (cited Magali et al, 2014). Nirmal (2008) has defined microfinance risk as the potential for events or on-going trends to cause future losses or declines in future income of an MFI or deviate from the original social mission of an MFI. Risk Management Initiative in Micro Finance (RIM, 2015) defines risk for an MFI as "the possibility of adverse events occurring and their potential for financial losses and negative social performance." For instance, an MFI whose mission revolves around the economic development of its clients, and that charges very high interest rates with respect to its peer group, may experience positive short-term financial impact in the form of higher net interest income.

MFIs face a range of risks that are familiar to most other financial institutions (CARE, 2001, Golgberg M & Palladini E, 2010, Churchill & Cheryl 2006, Heffernan, 2006, Bruett, 2004, Oldfield, & Santomero, 1997, Khan 2003, Churchill and Cheryl, 2006, Van Greuning and Bratanovic, 2000, Andersen et al, 2009). Risks faced by financial service providers generally include credit risk, liquidity risk, market risk (including interest rate risk), operational risk (including fraud, systems transaction, and error risks), compliance and legal risk, reputational risk, strategic risk, governance risk (including commercial and social mission risks), human resource risk, insurance and counterparty risk (if relevant), regulation, natural disasters and other physical risks, political and macroeconomic risk. Although they have limited control over them, organizational managers and directors must also assess the external risks to which they are exposed (Ledgerwood et al, 2013). According to Acheampong et al, (2012), the main risk factors affecting the micro finance industry in their order of severity and prevalence are; loan default and loan delay, human errors and errors emanating from the application of information technology; fraud and armed robbery; exchange and interest rate fluctuations; heightened competition from new entrants and the cost of legal liability.

Financial risks begin with the possibility that a borrower may not pay the loan on time with interest. They include credit risk, transaction risk, portfolio risk, liquidity risk, market risk, interest rate risk, foreign exchange risk, and investment portfolio risk. Operational risks are within the MFI's control. They include operational transaction risk, human resources risk, information & technology risk, fraud (Integrity) risk, regulatory and legal compliance risk. Strategic risks involve long-term choices and changes in the business environment. Strategic risks can include governance risk, (ineffective oversight, poor governance structure), reputation risk, and external business risks (GTZ, 2000), According to Goldberg and Palladini (2010), because an MFI's loan portfolio is its most valuable asset, the financial risks—credit, market, and liquidity— are of greatest concern.

All these categories of risks may affect MFIs in Ghana, most specially liquidity and fraud risk. For example in 2013, incidents of MFIs closing down and bolting with depositors' savings have been reported in most parts of the country. With a good number of them going into liquidity challenges and others folding up as a result of corruption and fraud in the micro finance subsector in particular and banking sector in general, with clients of such firms losing their money within the period (Boateng et al 2014).

Concept of Microfinance

Armendáriz and Morduch, (2005) defined microfinance in broader term as "embraces efforts to collect savings from low-income households, to provide insurance ("micro insurance"), and in some places, to also help in distributing and marketing clients' output". The Non-Bank Financial Institutions (NBFI) of Bank of Ghana describe microfinance as "lending to borrowers with the capacity to support loans of less than GHS100($30) and in the case of group lending with joint and several guarantees of members of the group for an amount not exceeding GHS 500($130)" (cited in Yeboah, 2012). Robinson (2001) comprehensively defines microfinance as the; small-scale financial services – primarily credit and savings – provided to people who farm or fish or herd; who operate small enterprises or micro enterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban.

Ledgerwood (1999:1) provides a more comprehensive definition of institutional microfinance: "…refers to the provision of financial services to low-income clients, including the self-employed. Financial services generally include savings and credit; however some microfinance organizations provide insurance and payment services. In addition to financial intermediation, many MFIs provide social intermediation services such as group formation, development of self-confidence and training in financial literacy and management capabilities among members of a group. Thus the definition of microfinance often includes both financial intermediation and social intermediation. Microfinance is not simply banking, it is a developmental tool. Microfinance activities usually involve; small loans typically for working capital, informal appraisal of borrowers and investments, collateral substitutes, such as group guarantees and compulsory savings, access to repeat and larger loans, based on repayment performance, streamlined loan disbursement and monitoring, secure savings products". Ledgerwood's definition encapsulates non-financial services, an essential but neglected component in definitions, which enables the poor to make efficient use of microfinance.

Microfinance Institutions (MFIs)

MFIs are financial intermediaries that offer specialized products (such as loans, savings, and payment services) that match the needs and capacity of low-income households and microbusinesses. Some are regulated, supervised financial institutions (such as banks and credit unions) while others are more informal (such as rotating savings and credit associations, village banks, and nongovernment microcredit institutions) (Goldberg and Palladini 2010). MFI is also defined to consist of agents and organizations that are engaged in relatively small financial transactions using specialized, character based methodologies to serve low-income households, micro enterprises, small farmers, and others who lack access to the banking system (Ablorh 2011). Ablorh claims that many MFIs provide social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group in addition to the financial services provided.

4. METHODOLOGY

The study is a survey that seeks to assess the risks that are of concern in Ghana's microfinance sector as seen by practitioners in the face of the changing business and macroeconomic environment, as well as keeping in mind the new initiatives and developments in the micro finance sector. The choice of the survey method is motivated by the fact that it best describes the opinions, personal characteristics, perceptions, preferences and attitudes of respondents. The choice is further informed by the fact that the survey method enables a wider coverage area whiles giving respondents the opportunity to analyze their individual contributions and identify different barriers existing among the various population sub-groups. Besides, the survey method is deemed appropriate since it enables one gather data on relatively large number of people at the same time, and can be done using structured questionnaires.

The study adopts the questionnaire of the Microfinance Banana Skins (2014) to explore the major risks identified in the "Banana Skins" report with some modification in relation to the microfinance industry in Ho Municipality in the Volta Region of Ghana. The study describes risks as viewed by a sample management and staff of the MFIs. A survey questionnaire was developed to suit the objective of the study. The data was analyzed using SPSS 23. Descriptive analytics were used to determine the view of the respondents in terms of severity and frequency of the risks.

Well-developed sampling decisions are crucial for the stability of any study. Making logical judgments and presenting a rationale for these decisions goes a long way in building the overall case for a proposed study. Decisions about sampling people develop alongside with decisions about the specific data collection methods to be used and should be thought through in advance. Sampling is the process of selecting a subset of population for the purpose of a specific study (Panneerselvam, 2007; Dooley, 2007). Sample size is a given number of members or cases from the accessible population which is carefully selected so as to be a representative of the whole population with the relevant characteristics. A sample is therefore a smaller group obtained from the accessible population (Mugenda & Mugenda, 2003). Probabilistic sampling technique was employed since the aim is to generalize the results from the study. Stratified sampling technique together with simple random sampling technique was used to select the MFIs to participate in the study as there exists a sampling frame for all members of the population of study.

The study was based on all MFIs (S & L Cos, Rural and Community banks, Finance Houses, Financial NGOs, Finance Cos and Credit Unions (tier 1 and 2) operating in Ho Municipality in the Volta Region of Ghana. These were selected because they have well-established business premises, well regulated and can be easily reached. A list of all tier 1&2 microfinance institutions operating in the entire municipality was collected from the Bank of Ghana web site. A sample of three (3) S & L Cos, three (3) Rural & Community banks, two (2) Financial NGOs, two (2) Credit unions, three (3) Finance houses and three (3) finance companies were selected. The questionnaire was distributed to all the identified MFIs. A sample of seventy-five (75) officials out of a population of one hundred (100) was used for the study. This is made of four (4) officials and one (1) risk manager from each MFI. The risks managers were purposively selected to fill the questionnaires because of their involvement in risk assessment and they are especially informed and can provide the necessary information to assist the researchers in this area of study. The purposive sampling technique therefore tries to get all possible cases that fit particular criteria, using various methods. The other staffs were randomly selected.

Data was collected from seventy-five (75) respondents by sent out questionnaires to potential respondents. The questionnaire first asked respondents to describe, in their own words, their understanding of risks, what they thought were the top five (5) risks that are of concern to the microfinance sector for the next five (5) years. The respondents were then presented with list of risks types and asked them to rate them according to risk severity and risk trend. Data collected from the field was first edited to check for errors and omissions and inconsistencies that might be recorded. Cases with such errors and omissions recorded was reverted back to field for participants to provide the required responses. Data was then coded and entered into the SPSS version 23 for analysis. Both descriptive and inferential tools of data analysis were employed. Results were presented using tables and graphs for pictorial clarity. Discussions on the findings were presented after each table or graph.

5. RESULTS/FINDINGS

Table 1 Familiarity with / Understanding of risks to Ghana's Microfinance Sector

	Frequency	Percent
Very familiar	28	73.7
Somewhat familiar	9	23.7
Not familiar	1	2.6
Understand	33	82.5
Do not Understand	6	15.0

Source: Field Survey, December 2016

From table 1, 73.7% of the respondents were very familiar with Ghana's microfinance sector, 23.7% were somewhat familiar while 2.6% of respondents were not familiar with the microfinance sector. This clearly shows that majority of respondents (97%) were familiar with Ghana's microfinance sector. Majority (82.5%) of the respondents understand what risks meant to the microfinance sector while 15% do not understand risks to the microfinance sector.

Table 2. Biggest risks of concern to MF industry over next five (5) years

Rank		Frequency	Percent
1	Credit risk	21	58.
2	Funding	16	44
3	Staffing	15	42.
4	Macroeconomic risk	14	39
5	Regulation	14	39
6	Management	12	33
7	Back Office operations	11	31
8	Competition	9	25
9	Over indebtedness	8	22
10	Product risk	6	17
11	Political Interference	6	17
12	Fraud	6	17
13	Risk Management	5	14
14	Technology Management	5	14
15	Client Relationship	5	14
16	Governance	4	11
17	Strategy	4	11.
18	Income Volatility	2	6
19	Interest rate	2	6
20	Liquidity	2	6
21	Reputation	1	3

Source: Field Survey, December 2016

From table 2 the biggest risks that are threats to the microfinance sector are, Credit risk (58%), funding (44%), staffing (42%), macroeconomic risk (39%), regulation (39%) and management (33%). Reputation (3%), liquidity (6), interest rate (6), income volatility (6), strategy (11) and governance (11) are among the less risks threats.

Table 3. Respondents view on Risks Severity

Rank		N	Minimum	Maximum	Mean	Std. Deviation
1	Fraud	37	2	5	4.41	.927
2	Credit risk	39	2	5	4.36	.811
3	Macroeconomic risk/trend	38	2	5	4.21	.843
4	Profitability	38	1	5	4.18	1.062
5	Over indebtedness	38	1	5	4.11	1.158
6	Management	39	1	5	4.05	1.197
7	Reputation	37	1	5	4.03	1.040
8	Client Relationship	38	1	5	3.97	1.102
9	Unrealizable expectations	37	1	5	3.95	1.053
10	Interest rate	38	2	5	3.92	.997
11	Competition	38	2	5	3.87	.906
12	Income volatility	38	1	5	3.87	1.119
13	Liquidity	38	1	5	3.84	1.103
14	Funding	38	2	5	3.84	1.001
15	Foreign Exchange	37	1	5	3.68	1.355
16	Staffing	39	2	5	3.64	1.088
17	Political Interference	38	1	5	3.61	1.242
18	Transparency	38	1	5	3.55	1.224
19	Transparency of objective task	38	1	5	3.55	1.132
20	Ownership	35	1	5	3.46	1.146
21	Regulations	38	1	5	3.45	1.267
22	Financial Capability	38	1	5	3.42	1.154
23	Mission drift	37	1	5	3.38	1.187
24	Strategy	38	1	5	3.34	1.097
25	Product risk	39	1	5	3.31	1.260
26	Technology management	38	1	5	3.26	1.408
27	Back office operation	38	1	5	3.26	1.309
28	Risk Management	38	1	5	3.21	1.094
29	Governance	39	1	5	3.21	1.174

Source: Field Survey, December 2016

Table 3 shows the results of respondents who judged risks to be very high or low in terms of severity. Top most is fraud risk with a mean of 4.41, followed by credit risk with a mean 4.36, macroeconomic trend is next with mean of 4.21, profitability with mean of 4.18 and over indebtedness with mean of 4.11. After over indebtedness comes management (4.05), reputation (4.03), client relationship (3.97), unrealizable expectations (3.95), interest rate (3.92) and competition (3.87). The lowest ranked are governance with mean of 3.21, risk management (3.21), back office operations (3.26), technology management (3.26) and product risk (3.26).

Table 4. Respondents view on Risk Trend

Rank		N	Minimum	Maximum	Mean	Std. Deviation
1	Credit risk	39	1	4	3.62	.747
2	Macroeconomic risk/trend	38	1	4	3.37	.786
3	Over indebtedness	38	1	4	3.37	.913
4	Client Relationship	38	1	4	3.29	.898
5	Competition	38	1	4	3.29	.898
6	Income volatility	37	1	4	3.27	.902
7	Reputation	37	1	4	3.24	.796
8	Profitability	38	1	4	3.24	1.025
9	Fraud	37	1	4	3.19	.967

10	Interest rate	37	1	4	3.19	.908
11	Liquidity	37	1	4	3.16	.928
12	Unrealizable expectations	37	1	4	3.14	1.032
13	Financial Capability	38	1	4	3.13	1.018
14	Transparency	37	1	4	3.03	.897
15	Management	37	1	4	3.03	.986
16	Staffing	38	1	4	3.03	.972
17	Foreign Exchange	37	1	4	3.00	.972
18	Governance	39	1	4	2.95	1.025
19	Funding	38	1	4	2.92	.912
20	Technology management	38	1	4	2.87	1.070
21	Risk Management	38	1	4	2.87	.844
22	Regulations	38	1	4	2.84	.886
23	Ownership	34	1	4	2.82	.904
24	Product risk	38	1	4	2.82	.926
25	Mission drift	38	1	4	2.79	1.069
26	Strategy	38	1	4	2.76	.943
27	Transparency of objective task	38	1	4	2.68	.989
28	Political Interference	38	1	4	2.66	.994
29	Back office operation	38	1	4	2.63	.913

Source: Field Survey, December 2016

Table 4 shows the results of respondents who judged risks to be rising or falling in terms of risk trend. Top most is Credit risk with mean of 3.62, followed by macroeconomic trend with a mean 3.37, next is over indebtedness with mean of 3.37, client relationship with mean of 3.29 and competition with mean of 3.29. After competition come income volatility (3.27), reputation (3.24), profitability (3.24), fraud (3.19), and interest rate (3.19). The lowest ranked are back office operations with mean of 3.63, political interference (2.66) transparency of objective task (2.68), strategy (2.76), Mission drift (2.79), Product risk (2.82), Ownership (2.82), Regulations (2.84), Risk Management (2.87), Technology management (2.87) and Funding (2.92)

Table 5. Respondents view on Degree of Agreement

Rank		N	Minimum	Maximum	Mean	Std. Deviation
1	Fraud	37	1	5	4.35 .	.789
2	Credit risk	39	1	5	4.13	1.056
3	Reputation	36	1	5	4.11	.919
4	Income volatility	38	1	5	4.03	1.078
5	Over indebtedness	38	1	5	3.97	1.150
6	Interest rate	37	1	5	3.97	.866
7	Management	39	1	5	3.95	1.050
8	Profitability	36	1	5	3.89	1.090
9	Ownership	33	1	5	3.88	.992
10	Macroeconomic risk/trend	37	1	5	3.86	1.134
11	Foreign Exchange	36	1	5	3.81	1.238
12	Client Relationship	38	1	5	3.79	1.277
13	Competition	38	1	5	3.76	1.149
14	Funding	38	1	5	3.74	1.155
15	Liquidity	37	1	5	3.65	1.160
16	Governance	39	1	5	3.62	1.115
17	Strategy	38	1	5	3.58	1.130
18	Transparency of objective task	38	1	5	3.58	1.348
19	Transparency	38	1	5	3.55	1.005
20	Financial Capability	38	1	5	3.53	1.268
21	Mission drift	37	1	5	3.51	1.170

22	Unrealizable expectations	37	1	5	3.51	1.070
23	Regulations	38	1	5	3.50	1.289
24	Technology management	38	1	5	3.50	1.247
25	Political Interference	38	1	5	3.45	1.329
26	Product risk	38	1	5	3.45	1.032
27	Risk Management	38	1	5	3.34	1.146
28	Staffing	39	1	5	3.33	1.264
29	Back office operation	38	1	5	3.21	1.212

Source: Field Survey, December 2016

Table 5 shows the results of respondents who judged risks in terms of strongly agree to strongly disagree with risk severity and trend. Top most is fraud risk with mean of 4.35, followed by credit risk with a mean of 4.13, next are over reputation with mean of 4.11, income volatility with mean of 4.03 and over indebtedness with mean of 3.97. After over indebtedness comes interest rate risk (3.97), management (3.95), profitability (3.89), ownership (3.88), and macroeconomic trend (3.86). The lowest ranked are; back office operation (3.21), staffing (3.33), risk management (3.34), product risk (3.45), political Interference (3.45), technology management (3.50), regulation (3.50), unrealizable expectations (3.51), mission drift (3.51), financial capability (3.53), and transparency (3.55)

Kruskai-Wallis test was carried out to find out if there are significant differences in the responses between the groups of MFIs (Non-Bank Finance Institutions, Rural banks and other microfinance institutions). The test however, revealed no significant difference in the responses among the groups in terms risk severity and trend.

6. DISCUSSION

The key findings of the survey show that majority (82.5%) of respondents understand what risks meant to the microfinance sector. This was demonstrated through the various definitions of risks. Most of the respondents defined risks as the problems that threaten the long-term viability and sustainability of the microfinance institutions or factors that impede the growth and sustainability of the microfinance scheme and that have the potency of collapsing the institution while others defined it as the probability that clients will not repay their loans granted them and/or management will not manage funds properly resulting in unavailability of funds to grant loans or give to clients/depositors when they demand for it.

A comparison of top risks shows that practitioners in Ho municipality perceive; credit risk, funding, staffing, macroeconomic trend, regulation and management risk to be the greatest threats for the microfinance sector. Practitioners perceive fraud (MFIs be damaged by dishonest staff and customers) as the most severe risk followed by Credit risk (risks that poor lending practices will to loan losses) and macroeconomic risks (MFIs vulnerability to pressures in the wider economy such as inflation, recession and volatile markets). These findings agrees with the findings of Acheampong et al, (2012); the main risk factors affecting the micro finance industry in their order of severity and prevalence are; loan default and loan delay, human errors and errors emanating from the application of information technology; fraud and armed robbery; exchange and interest rate fluctuations; heightened competition from new entrants and the cost of legal liability. The result however disagrees with the findings of the Arshad and Basharat (2014) who perceived that macroeconomic trends continue to be the chief concern for the sector. Practitioners in Ho municipality seem comfortable with governance risk, risk management and back office operation as they think these are the least of their problems.

Credit risk, macroeconomic trend and over indebtedness are key concern for practitioners due to their rising trend. These have led to most of the MFIs remaining unprofitable and continue to rely heavily on outside funding. Issues around back office operations, political interference transparency of objective task and strategy continue to be considered less significant over the years. The outcome also disagrees with the findings of the Arshad and Basharat (2014) who saw the increasing threat from macroeconomic trends, competition, and security as the fastest rising threat. Further respondents strongly agree that fraud risk, credit risk, reputation, income volatility and over indebtedness are the major risks affecting MFIs in terms of severity and also rising trend. The lowest in terms of degree of agreement are back office operation, staffing, risk management, product risk, and political Interference.

6. CONCLUSION AND RECOMMENDATION

MFIs face risks that they must manage effectively to be successful. The failure to do so can result in MFIs falling behind in terms of meeting their social and financial objectives. The biggest risks that are of threats to the microfinance sector in the next five (5) years are; credit risk, inadequate funding, staffing, macroeconomic trend/risk, regulation and management risks. Fraud, credit risk, macroeconomic trend, over indebtedness, management, reputation, interest rate and competition are ranked very high in terms of severity. To be effective and successful MFIs must address these risks factors.

7. LIMITATIONS

Though the research did not cover the whole of Ghana and only forty (40) out of seventy-five (75) responses were received and analysed this does not invalidate the results of the study. It is suggested that further research be carried to find out the ability of MFIs to cope with the identified risks and how these risks impact of on microfinance institutions performance.

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