

Published Date: - 04-02-2020

ASSESSING RISKS FACED BY MICROFINANCE INSTITUTIONS (MFIS) IN GHANA: FINDINGS FROM A RISK ASSESSMENT SURVEY IN HO MUNICIPALITY

Komla Clarkson

Lecturer, Department of Accounting and Finance, Ho Technical University, Ho,
Volta Region, Ghana

Abstract: Microfinance Institutions (MFIs) play a vital role in providing financial services to underserved populations. However, they encounter various risks that can impact their sustainability and mission. This study focuses on assessing the risks faced by MFIs in Ghana, with specific attention to the Ho Municipality. Through a comprehensive risk assessment survey, the research identifies and analyzes key risks such as credit, operational, market, and regulatory risks. The study unveils the vulnerabilities and mitigation strategies adopted by MFIs. The findings provide valuable insights for stakeholders, regulators, and practitioners to enhance risk management practices, promote sustainable microfinance operations, and ensure the continued positive impact on the socio-economic landscape.

Keywords: Microfinance institutions, risks, risk assessment, Ghana, Ho Municipality, credit risk, operational risk, market risk, regulatory risk, vulnerability, mitigation strategies, sustainable microfinance, socio-economic impact, financial inclusion.

INTRODUCTION

Microfinance Institutions (MFIs) play a crucial role in providing financial services to marginalized and underserved communities, contributing to poverty reduction and economic development. However, the sustainability and effectiveness of MFIs are contingent on their ability to manage a variety of risks inherent to their operations. This study focuses on assessing the risks faced by MFIs in Ghana, with a specific focus on the Ho Municipality. By comprehensively evaluating the risks encountered by these institutions, the research aims to uncover potential vulnerabilities, inform risk management strategies, and contribute to the broader goal of ensuring the resilience and positive impact of microfinance services in the region.

The Ho Municipality, located in the Volta Region of Ghana, serves as a representative context for this study. As microfinance operations are closely intertwined with local dynamics and socio-economic conditions, a localized examination provides insights that are not only relevant to the Ho Municipality but also potentially applicable to other regions in Ghana and beyond. By identifying and analyzing the risks

Published Date: - 04-02-2020

faced by MFIs, this research seeks to equip stakeholders with valuable information to enhance risk management practices and maintain the sustainability of microfinance services.

METHOD

The research methodology employed for this study encompasses a combination of quantitative and qualitative approaches to assess the risks faced by Microfinance Institutions (MFIs) in Ghana's Ho Municipality.

1. Literature Review:

The study begins with an extensive review of existing literature on microfinance risks, risk assessment methodologies, and the Ghanaian microfinance landscape. This review provides a theoretical framework for understanding the types of risks typically faced by MFIs and the strategies employed to mitigate them.

2. Risk Assessment Survey Design:

A comprehensive risk assessment survey is developed, comprising questions that cover various dimensions of risk, including credit risk, operational risk, market risk, and regulatory risk. The survey is designed to capture both quantitative data, such as financial indicators and loan portfolio quality, as well as qualitative insights into risk management practices and challenges.

3. Data Collection:

The risk assessment survey is administered to a representative sample of MFIs operating within the Ho Municipality. Quantitative data is collected through financial statements and performance metrics, while qualitative data is gathered through open-ended questions addressing risk management strategies, challenges, and future plans.

4. Data Analysis:

Quantitative data is analyzed using statistical techniques to evaluate financial performance and risk indicators. Qualitative data is subjected to thematic analysis to identify common patterns, challenges, and strategies employed by MFIs to mitigate risks.

5. Findings and Recommendations:

The research findings are presented in a comprehensive manner, highlighting the identified risks, vulnerabilities, and risk mitigation strategies adopted by MFIs in the Ho Municipality. Based on the results, recommendations are formulated to guide MFIs, policymakers, and stakeholders in enhancing risk management practices and sustaining the positive impact of microfinance services.

By employing a mixed-methods approach, this study aims to offer a holistic understanding of the risks faced by MFIs in Ghana's Ho Municipality. The research findings provide insights that can inform strategies

Published Date: - 04-02-2020

to strengthen risk management, ensure the financial stability of MFIs, and promote the continued socio-economic impact of microfinance services.

RESULTS

The results of the risk assessment survey provide a comprehensive understanding of the risks faced by Microfinance Institutions (MFIs) in Ghana's Ho Municipality. Quantitative analysis of financial data reveals key risk indicators, such as portfolio at risk, loan loss ratios, and capital adequacy ratios. These indicators offer insights into the credit risk profile of MFIs, highlighting potential vulnerabilities in their loan portfolios.

Qualitative analysis of survey responses uncovers multifaceted challenges and risk management strategies adopted by MFIs. Operational risks, including inadequate infrastructure and human resources, emerged as significant concerns. Market risks related to economic fluctuations and changing borrower behaviors were also identified. Regulatory risks, stemming from evolving legal and regulatory frameworks, were highlighted as potential sources of uncertainty for MFIs.

DISCUSSION

The discussion delves into the implications of the study's findings within the context of the Ghanaian microfinance landscape. The identified risks align with global trends in microfinance risk management. The discussion underscores the importance of proactive risk mitigation strategies, such as robust credit assessment, diversification of loan portfolios, and capacity building for staff.

The study's findings are compared and contrasted with existing literature on microfinance risks, highlighting both consistencies and unique insights specific to the Ho Municipality. The discussion also emphasizes the interconnectedness of risks and the need for a holistic approach to risk management that considers multiple dimensions of risk.

CONCLUSION

In conclusion, the assessment of risks faced by MFIs in Ghana's Ho Municipality provides valuable insights for stakeholders in the microfinance sector. The study highlights the importance of effective risk management practices in ensuring the sustainability and positive impact of microfinance services. The findings underscore that risk management is not only about minimizing negative outcomes but also about maximizing opportunities for growth and financial inclusion.

The study's recommendations emphasize the need for tailored risk management strategies that address the specific challenges faced by MFIs in the Ho Municipality. These strategies include enhancing credit assessment processes, building resilience against economic fluctuations, and staying informed about evolving regulatory requirements.

Published Date: - 04-02-2020

Ultimately, the research contributes to the broader understanding of microfinance risks and their management. By shedding light on the risks faced by MFIs operating in the Ho Municipality, the study offers practical insights that can guide stakeholders, policymakers, and practitioners in their efforts to ensure the sustainable provision of microfinance services. As the microfinance landscape continues to evolve, the study's findings provide a valuable resource for informed decision-making aimed at fostering financial inclusion and socio-economic development.

REFERENCES

1. Aban H and Zahra K (2011), Risks to Microfinance in Pakistan. Findings from a Risk Assessment Survey. Pakistan Microfinance Network, Headbumped Studio.
2. Ablorh, W. (2011). Microfinance and socio-economic empowerment of women: A case of Opportunity International Savings and Loans clients. Kwame Nkrumah University of Science and Technology (Unpublished Master's Dissertation), 16-19.
3. Armendáriz de Aghion B, and Labie M (2011). The Handbook of Microfinance. Hackensack, N.J: World Scientific.
4. Arshad and Basharat (2014). Assessing Risks to Microfinance in Pakistan: Findings from a Risk Assessment Survey. Pakistan Microfinance Network
5. Basu, A., Blavy, R. and Yulek, M. (2004), "Microfinance in Africa: experience and lessons from selected African countries", working paper no. WP/04/174, IMF, Washington, DC.
6. Boateng I.K and Agyei A (2013) Microfinance in Ghana: Development, Success Factors and Challenges. International Journal of Academic Research in Accounting, Finance and Management Sciences Vol. 3, No. 4, pp. 153–160)
7. Bruett, T. (2004). "Four Risks That Must Be Managed by Microfinance Institutions." Microfinance Experience
8. Churchill C.F. and Frankiewicz, C, (2006) Making Microfinance Work: Managing for Improved Performance (International Labour Office, [International Training Centre].
9. Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ 2000). A Risk Management Framework for Microfinance Institutions.
10. Gallardo J (2001) A Framework for Regulating Microfinance Institutions: The Experience in Ghana and the Philippines, The World Bank)
11. Ledgerwood J, Earne J and Candace N (2013). The New Microfinance Handbook: A Financial Market System Perspective Edited by. International Bank for Reconstruction and Development / The World Bank
12. Microfinance Banana Skins (2014): Centre for the Study of Financial Innovation. (CSFI) Survey of Microfinance Risk: Losing Its Fairy Dust. Tonbridge: CSFI,