"An investigation of the financial monitoring policies for microfinance institutions in Ghana"

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AN INVESTIGATION OF THE FINANCIAL MONITORING POLICIES FOR MICROFINANCE INSTITUTIONS IN GHANA

Abstract

The need to regulate microfinance institutions (MFIs) was advocated and researched yet lacks purposeful in-depth exploring studies of the formulation process of financial monitoring policies, their implementation and accompanying challenges. Consequently, this study contributes by reviewing the specific financial policies for microfinance in Ghana and assesses factors mitigating effective implementation of such policies. It also introduces implementation theory into the MF research arena, thus shifting MF research focus.

The study revealed that policies formulated for MFIs in Ghana and elsewhere are skewed and policy implementation, monitoring and supervision found to be less effective. The results further identified inadequate support structures and large unlicensed profit-oriented informal microfinance operations in Ghana as major obstacles to efficient implementation of microfinance policies. This paper therefore recommends the creation of a semi-autonomous institution, the National Microfinance Oversight Authority, to license, regulate and supervise the informal microfinance institutions in Ghana.

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INTRODUCTION

Microfinance as a revolutionary poverty alleviation concept seeks to promote financial inclusion (CGAP, 2011; Santosh, Subrahmanyam, & Reddy, 2016) and to empower the hardcore poor (Stewart et al., 2010). The UN's 2005 declaration of microfinance (Banerjee, Duflo, Glennerster, & Kinnan, 2015) further confirms the tremendous impact of MF on the livelihood of the poor in Africa, Latin America, Eastern European countries and the rest of the world.

Sarpong (2016) points out that, with approximately 70% of the population unable to make use of banking facilities in Ghana, MF offers a way forward to individuals who 'cannot qualify or meet requirements' to benefit from the mainstream banking sector. However, the MF concept is exploitative (Bateman, 2015) due to large number of unregistered profit-oriented informal MFIs whose activities defied the existing financial regulations in pursuant of profit; a phenomenon which prompted the regulation of MFIs (Ndambu, 2011; Founanou & Ratsimalahelo, 2016).

This exploitation is confirmed by Sarpong (2016) who highlights several, recent scandals within the MF sector in Ghana, such as Ponzi schemes and outright fraudulent activities by unscrupulous informal MF operators that have led to loss of lifesavings, resulting in protest marches against fraudulent activities and unfortunately, even some cases of suicide in the Brong Ahafo region of Ghana, after failed efforts to retrieve investments, similar to the Andhra Pradesh microfinance incidence of Bangladesh in 2009.

This paper aims to explore the relevant FMPs for MFIs in Ghana, its formulation and implementation. Specifically, this paper will identify peculiar policy implementation challenges in the sector and offer possible strategies.

1. LITERATURE REVIEW

Advocates of regulation for MFIs (Ndambu, 2011; Founanou & Ratsimalahelo, 2016) prompted efforts made by countries in Eastern Europe, Latin America and many other jurisdictions, including Ghana, to craft various kinds of regulations for the sector (CGAP, 2011; BoG, 2011). Prior to any discussion, it is imperative though to illustrate theoretical frameworks underpinning MF operations: social entrepreneurship, policy formulation, implementation and the conceptual framework on which the paper is grounded.

2. RELEVANT THEORIES

Entrepreneurship theory studies which evolved from Schumpeter's theory, "Theory of Economic Development" (1934), regarded an entrepreneur as a producer (Santos, 2012). The classic Schumpeterian theory of entrepreneurship focuses more on the process than outputs of entrepreneurial ventures (Santos, 2012); hence, entrepreneurs are considered synonymous with business owners (Kuratko, Hornsby, & Hayton, 2015). Kumar and Gupta (2013) define social entrepreneurs as agents of change in emerging economies. Social enterprises, including MFIs, are hybrid organizations with both financial objectives and a social agenda (Rahim & Mohtar, 2015) that apply innovative and cost-effective methods of addressing social problems, including poverty. However, the recent shift to commercialization (Addae-Korankye, 2012) and a value-creating agenda 'motivates' MFIs to bend the rules and operate outside legal boundaries (Sinclair, 2012; Kinde, 2012). The element of rule breaking (Sinclair, 2012; Cieslik, Hudon, & Verwimp, 2015) is strongly present in social entrepreneurship literature, which cites MF as a social enterprise intervention (Guérin, Roesch, Venkatasubramanian, & D'Espallier, 2012). Ogbulu, Uruakpa, and Umezinwa (2015) conclude that informal profit-minded entrants to the MF marketplace, typically, ignore credit delivery regulations and technologies successfully implemented by MFIs in the formal sector. Illegitimate MF activities therefore thrive where there are seemingly weak institutions, weak regulations, implementation is less effective and corruption prevails (Zahra, Pati, & Zhao, 2013).

As a result, policy formulation for MFIs must address their specific environment. Santos (2012) argued that the environment determines social needs and creates opportunities, which the MF entrepreneurs pursue, and also the development of MFIs' legal recognition and legal form. Literature indicates that policy formulation occurs at two levels: problem identification and definition (agenda setting stage) (Embrett & Randall, 2014) comprising actual formulation, decision-making, implementation and evaluation stages. Embrett and Randall (2014) aver that policy formulation should be random and erratic to support Santos' (2012) environment-specific approach.

Consequently, Little (2012) and Geyer's (2012) call for the complexity theory of policy formulation (Hallsworth & Rutter, 2011; Cairney, 2012), which intimates that policy formulation should be regarded as a system, involving many ideas interacting in a non-linear fashion (Smith & Katikireddi, 2012), drawing cooperation from policymakers to ensure that those interactions (Geyer, 2012) can produce new ideas (Pritchett, Woolcock, & Andrews, 2012) and ways of thinking. In this regard, Ghana engaged in a lengthy consultative process that results in the Ghana Microfinance Policy in 2006 (GHAMP, 2006). GHAMP (2006) intimates that "there is the need for dialogue on the formulation, implementation and review of

Source: adapted and modified model from Hoekstra et al. (2014).

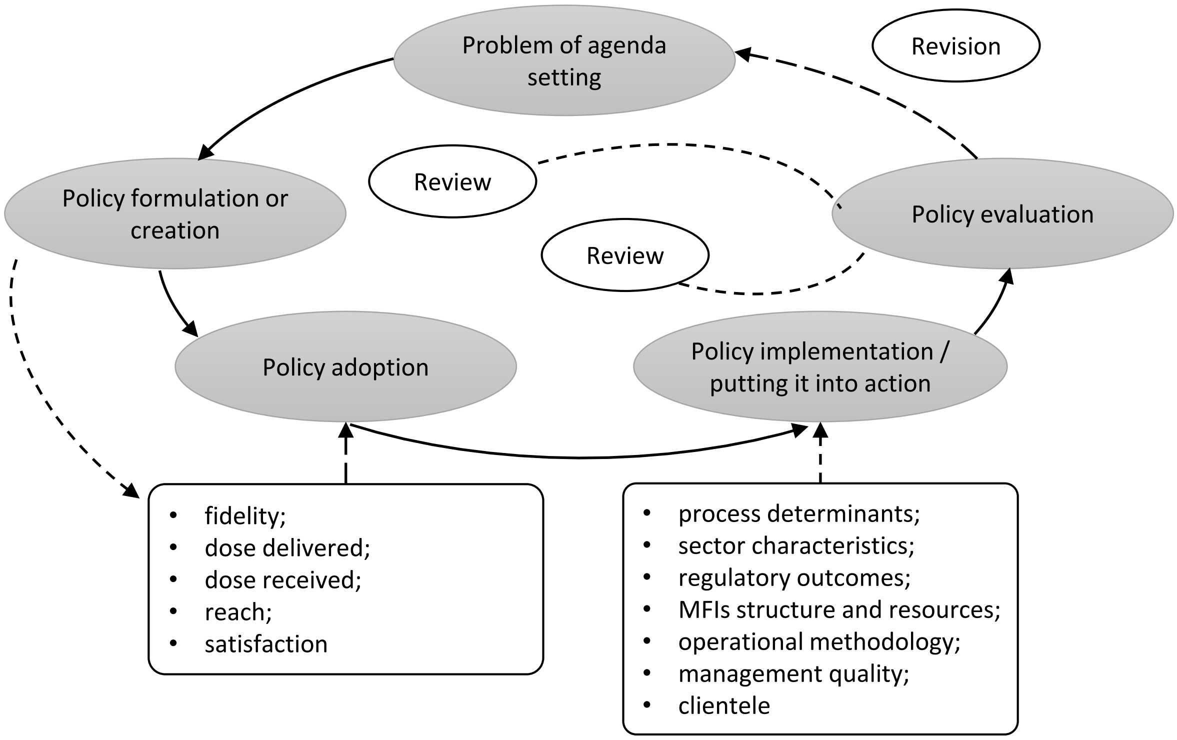

Figure 1. Policy implementation process model

regulatory and supervisory policies and procedures to ensure consistency and cost-effective approaches to regulation across different types of microfinance institutions and products"; this underscored the issuing of operating guidelines (BoG, 2011) for various microfinance forms in Ghana.

Smith and Katikiredi (2012) aver that implementation is a stage in the policy cycle of formulation-implementation-reformulation (May, 2013) that involves carrying out of a basic policy decision (Nilsen, Ståhl, Roback, & Cairney, 2013), incorporated in a statute or in an authoritative decision (Gong & Janssen, 2012). Policy implementation literature indicates two major schools of thought: the top-down and bottom-up views (Nilsen et al., 2013). The top-down school of thought focuses on controllable factors (Nilsen et al., 2013) at a central level and enforces the theory of the mind (ToM) (Foss & Stea, 2014) as conception of policy implementation and underscores the rationality of the MFIs (May, 2014). However, the disposition of MFIs regarding any regulation is relevant for effective any implementation.

The interpretive, democratic, bottom-up school of thought, draws on Michael Lipsky's 'street-bureaucracy' model (May, 2013). Lipsky's 1980's model asserted that policies are made from daily encounters of street-level workers, termed 'the street-level bureaucrats', which is a feature of the MF sector.

Wilkinson and Frost (2015) however explain that organizations charged to implement policies do in fact modify, simplify and re-orient these policies to suit their internal structures and conventional operational procedures (Smith & Katikireddi, 2012; May, 2014). Therefore, policy outcomes may diffuse and lose meaning and this might, intentionally or unintentionally, create deviations (Wilkinson & Frost, 2015) by the MFIs. This is why effective monitoring will promote adherence to financial monitoring policies for MFIs. Ghana's process leading to GHAMP is laudable but less useful for the present MF dispensation characterized by large informal sector; a situation well envisaged and pronounced the need to 'balance continued evolution of a variety of institutions providing microfinance products in order to protect the consumers' (GHAMP, 2006).

Relating this to Wilkinson and Frost (2015), modification and re-orienting policies to market and erratic MF environment in Ghana might present the Ghana Association of Microfinance Companies (GAMC) some challenges thereby exacerbates its current lack of technical capacity. Thus, successful implementation of MF operating policies is neither a question of prescriptive nor interpretive process but a belief system that culminates (Cairney, 2012; Smith & Katikireddi, 2012) in a cycle of formulation-implementation-reformulation (May, 2013).

Similarly, Hoekstra et al. (2014) contend a four-step process in implementation intervention which emphasized constant review to align the policy with the current context (May, 2013). Hoekstra et al. (2014) adapted Wierenga et al.'s (2013) implementation process: adoption, implementation, continuation and determinants yet with different scorecards. But in the context of this paper, clients, the MFIs operational methodology, their internal structure, quality of MFIs' management and the adequacy of available regulations are treated as the determinants to create the process below.

The figure corresponds with 'change valence and change efficacy' model described by May (2012). While the change valence denotes the extent to which MFIs collectively value any change a new policy brings about, the change efficacy is resource-based and relates to implementation capability, consisting of resource availability and other emergent factors in the market space of MFIs (May, 2012). This argument is consistent with the intended objective of the GHAMP document, however, since the market space has changed and the sector is now dominated by informal profit-oriented MFIs, a new consultative engagements will have ensure the dispositions of the MFIs are aligned to the objectives of the regulation and promote reviews that will enhance compliance. This will promote smooth adoption and facilitate implementation.

When policy formulation, adoption, implementation and evaluations process lacks a gap in policy implementation is created (CGAP, 2011) and failure becomes imminent. An implementation gap can also arise from the policy itself, when such a policy does not emanate from the collaborative efforts of the regulator and the categories of MFIs as in the case of Ghana, presently, and other MF jurisdictions. Pritchett et al. (2012) conclude from their survey on policy implementation that implementation problems occur when new, impressive laws are ambiguous and not related to specific MF environmental (CGAP, 2011, 2012) and current issues (May, 2013), along with expectations of MFIs. Indeed, the frequent review of operating guidelines for Ghanaian MFIs, resulting in a raise in minimum capital requirement (BoG, 2015), sounds impressive in sanitizing the sector but does not involve the input of the MFIs, as there is less control over the numerous informal MFIs.

Other schools of thought espouse the reasons for implementation failure as lack of capacity (May, 2014) and poor commitment of intermediaries (Hill & Hupe, 2015). This assertion relates to the GAMC, an apex body, whose mandate is to offer technical assistance and exercise supervisory role over the MFIs, seems to lack the technical capacity and adequate funding to execute this more effectively. Winter (2012), however, espouses that when implementation is limited to key attributes of policies, such as capital requirements for MFIs, complex chains of implementation actions are involved, as well as indirect control and less supportive political environments, there is nothing short of failure. Based on this, the Policy Ownership Model, which seeks to blend the expectations and resources of all actors and also engages consultation essentially with informal MFIs more on continual basis, is needed to embed the views of the MFIs.

3. REGULATING MICROFINANCE

While the informal and sometimes the semi-formal MFIs are not prudentially or formally regulated, the formal category is fully regulated in all countries (CGAP, 2012). Literature identifies fives means of regulating MFIs, consisting of no regulation, self-regulation, delegated supervision, and existing law, as well as special regulatory policy for MF (CDC Consult, 2010; Macchiavello, 2012). MFIs in Bangladesh, for instance, are required by law, to register with the Microfinance Regulatory Authority (MRA) and any other apex institution (Magali, 2014; Khalily, Khaleque, & Badruddoza, 2014). The MRA is an autonomous institutions charged with legislating, licensing and supervising the MFIs.

Other mentionable countries that have a strong regulatory framework for MFIs include Peru, the Philippines, Bolivia, and Bosnia, as well as Mongolia, Cambodia, Nicaragua, and Sri Lanka, along with Colombia, Mexico and India (Bateman, 2015; Rahman & Luo, 2012). According to Magali (2014), no effective and mandatory regulatory framework exists for the large number of informal MFIs dominating the sector in Asia and Ghana; Ghana fails to comply with regulations and operating guidelines (Rahman & Luo, 2012).

Most MFIs in Africa are regulated and supervised by the individual country's central bank, with Nigeria (CBN), Egypt (CBE), Kenya (CBK), Uganda (BoU), and Zimbabwe (RBZ), but a few examples (Khalily et al., 2014). The central bank licenses the MFIs in these countries (Mago, 2013), however, in South Africa, the Microfinance Regulatory Council (MFRC) carries out all supervisory activities by conducting random off-site and on-site inspections of the MFIs (Segun, Hussein, Daniel, & Olajide, 2015) whose lending rates exceed the usury ceiling. This contrasts with India, Peru, Bolivia, the Philippines and some others mechanisms of supervision. Ghana has adopted rather a hybrid position of regulation with prudential and self-regulation of the MFIs exists through the GAMC, which carries delegated authority of supervising the MFIs registered with it.

On the contrary, Segun et al. (2015) argue that maintaining self-regulation, with the existing banking laws of the respective countries (Khalily et al., 2014; Llanto, 2015), proves more efficient than crafting entirely special, MF-specific laws. However, Zimbabwe, Mozambique and Uganda, as with the Philippines, have successfully enacted a special law for their MFIs (Makuyana, 2016) to ensure that the specific regulation exists, tailored to the relative environment of the MFIs in these countries (Nzaro, Njanike, & Jaravani, 2013). This paper subscribes to the idea of an independent body (Nzaro et al., 2013; Makuyana, 2016) to carry out the duty of supervision and monitoring of MFIs under special regulation, which Bangladesh successfully did through the MRA.

The implication is that the Other Financial Institution Supervision Department (OFISD) of Bank of Ghana and the Ministry of Finance of Ghana will be relieved of monitoring and supervision of the MFIs.

This will call for adjustment in the risk-based mode of regulating the MFIs so that risk management practices fit the MFIs (Magali, 2014; Wilkinson & Frost, 2015) is necessary. MFIs must be able to enter the arena of a licensed and prudentially supervised financial intermediation, while at the same time regulations must be crafted in such a way that effective and efficient development (Turner, 2012; Rahman & Luo, 2012) of MFIs is permitted. Prudential specifications (Khalily et al., 2014) are more of preventive measures. Based on GHAMP's dictates rigorous preventive regulation might not be appropriate in the Ghanaian MF sector, which is less-regulated and subject to a different jurisdiction (BoG, 2013).

4. CONCEPTUAL FRAMEWORK

This paper conceptualizes a financial monitoring policy ownership (FMPO) model as presented in Figure 2. This '3-Pillar FMPO model' is developed on the premise that participation in decision-making integrates the views of all interest groups (Hill & Hupe, 2015; May, 2013). These individual institutions' input should devolve into robust decisions that the MFIs will adopt. Thus, it is assumed that the numerous informal MFIs through the apex institutions will participate in consultations and cooperate with regulations regarding their operations; and this will enhance compliance and effective implementation.

This is thus a democratic model (May, 2013), where input from the firm internal structures (configuration), comprised of the informal MFIS operating methods and an external configuration that represents the Bank of Ghana and the financial regulations. This study also assumes this 3-pillar concept will devolve into a 'hybrid' regulatory framework that will work better for MFIs to internalize and operationalize the existing guidelines.

5. METHODOLOGY

This study adopted a mixed methodology based on multiple influences that account for less than expected performance of MFIs, which calls for an

Source: developed by the researcher for this study.

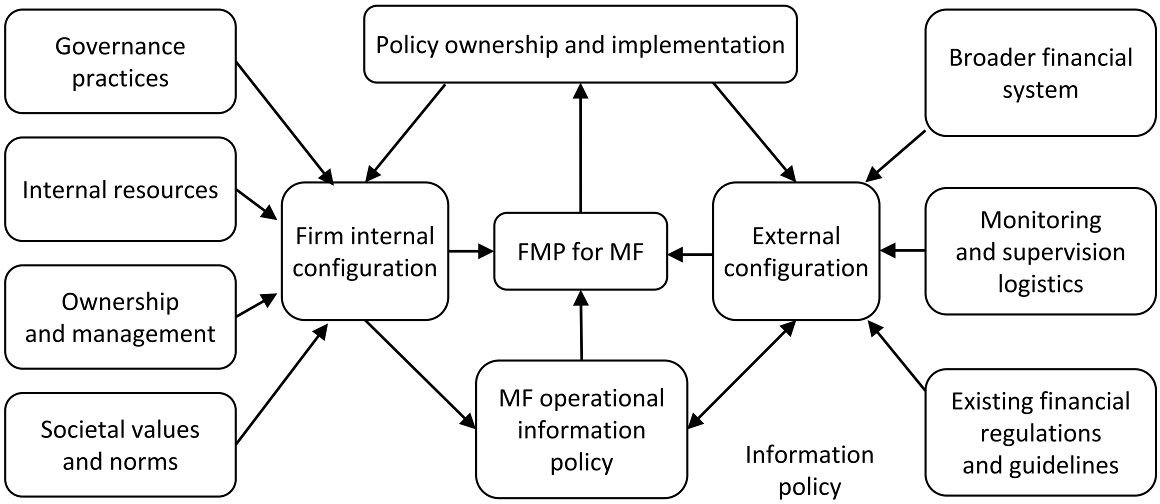

Figure 2. FMP model for MFIs

inquiry that is both inductive and deductive. This research paper is inclined to descriptive analysis, as the aim was to explore policy implementation challenges of MFIs and suggest strategies to effectively implement the FMPs in Ghana. The study was limited to tier two MFIs licensed by the Bank of Ghana (BoG) operating in the Accra, as the target population with a sample of 65 out of the regional figure of 236, which is a good representation, since Accra houses branches of most MFIs. The respondents were mainly senior managers and executives of the MFIs who were purposively selected to ensures information received is appropriate to the phenomenon of interest (Palinkas et al., 2015).

The study used a combination of both a 5-point Likert scale, closed-ended questions and five structured, open-ended questions, purported to probe for certain critical information, to collect primary data for both quantitative and qualitative analysis. A factor analysis, the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Barlett's test were conducted on the Likert scale items, in order to ascertain a measure of sampling adequacy and sphericity (Traynor & Andrews, 2015).

6. FINDINGS

The quantitative data gathered were analyzed and converted into frequency graphs, component tables and cross-tabulations. Factor analysis conducted on the variables tested indicates three themes, as depicted in Table 1.

The regulations and their formulation are found to be more influential on the performance of MFIs. The statistical test indicates the significant impact of this variable at 0.713 KMO, with a Chi-square of 0.000. This test justifies the important aspects of the stated or mentioned variables in the operations of MFIs.

Table 1. KMO and Bartlett's test

Factor category	Kaiser-Meyer-Olkin measure of sampling adequacy	Bartlett's test of sphericity		
		Approx. Chi-square	df	Sig.
Regulations and their formulation	0.713	245.084	45	0.000
Implementation, monitoring and supervision	0.697	543.789	105	0.000
Implementation challenges	0.857	433.169	45	0.000

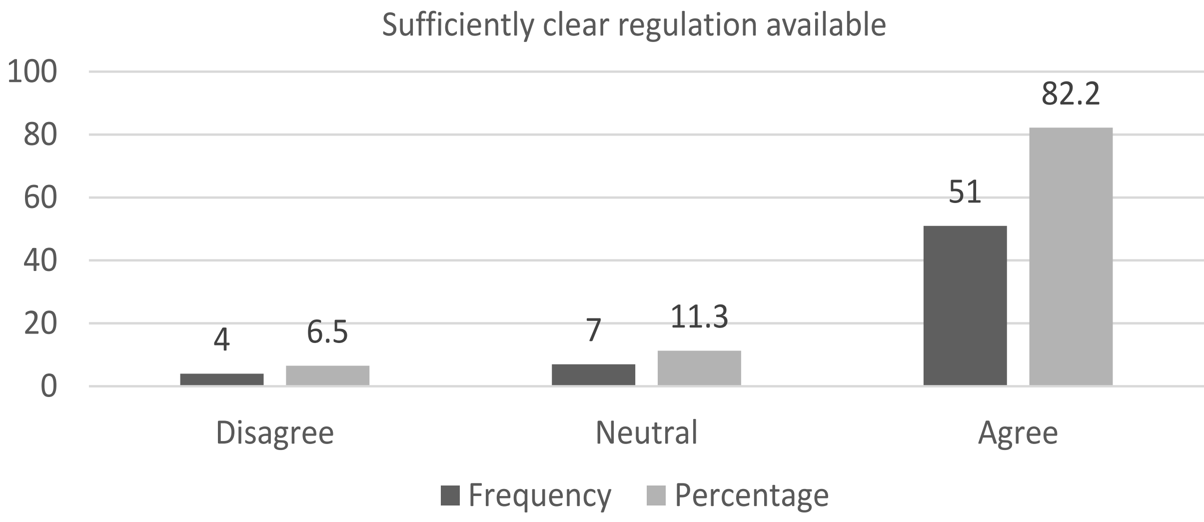

Figure 3. Availability of FMPs for MFIs

The detailed analysis of the theme regarding regulations and their formulation confirmed that licensing (0.893 KMO), minimum capital requirement (0.932 KMO) and capital adequacy (0.821 KMO) are highly influential in determining the impact of the regulations and their formulation on the operations of the MFIs. Though other variables do exist, their presence does not have a similar impact. However, the availability of supplementary materials tested at 0.851, with a Chi-square of 0.000, as a relevant element of the theme has statistical significance to the operations of the institutions, because it influences the degree of the MFIs' operational efficiency.

The variable 'the availability of FMPs for MFIs' as a core component of regulations and their formulation, indicated 82.2 percent agreement on the adequacy of regulation for MFIs in Ghana (Figure 3 and Table 4 (for Table 4, see Appendix)). Though there are some disagreements, the disagreed and neutral responses together (17.8 perecent) are insignificant to annul the statistical result and hence the findings obtained. Consequently, FMPs regulate MFIs' operation in Ghana; as is the case in other jurisdictions. This regulation is considered prudential (Founanou & Ratsimalahelo, 2016), based on the significant impacts of its elements (Table 1) in the operational capability and overall performance of MFIs in Ghana. Notwithstanding the availability of regulation for these MFIs, the study confirmed that stakeholder participation and communication or dialogue in such policy formulation was grossly inadequate (Tables 1 and 4 (for Table 4, see Appendix)). The analysis of the combined effect of the mentioned variables of 'regulations and their formulation' is that regulations do have significant implications for effective and efficient operations of MFIs in Ghana.

7. IMPLEMENTATION, MONITORING AND SUPERVISION' IS STRONGLY SIGNIFICANT AND RELEVANT TO THE OBJECTIVE OF THE RESEARCH

The results indicated that implementation, monitoring and supervision did not influence the operation of the MFIs as the availability and formulation variables discussed earlier. However, the theme and its component variables indicate statistical significant impact at 0.697 KMO on MF activities. The statistical importance of this theme, especially 'co-operation and dialogue', statistically valued at 0.740 KMO (Tables 2 and 4 (see Appendix)), indicates how dialogue and cooperation, to foster implementation of the relevant regulations; impact the operation of MFIs in Ghana (Figure 4).

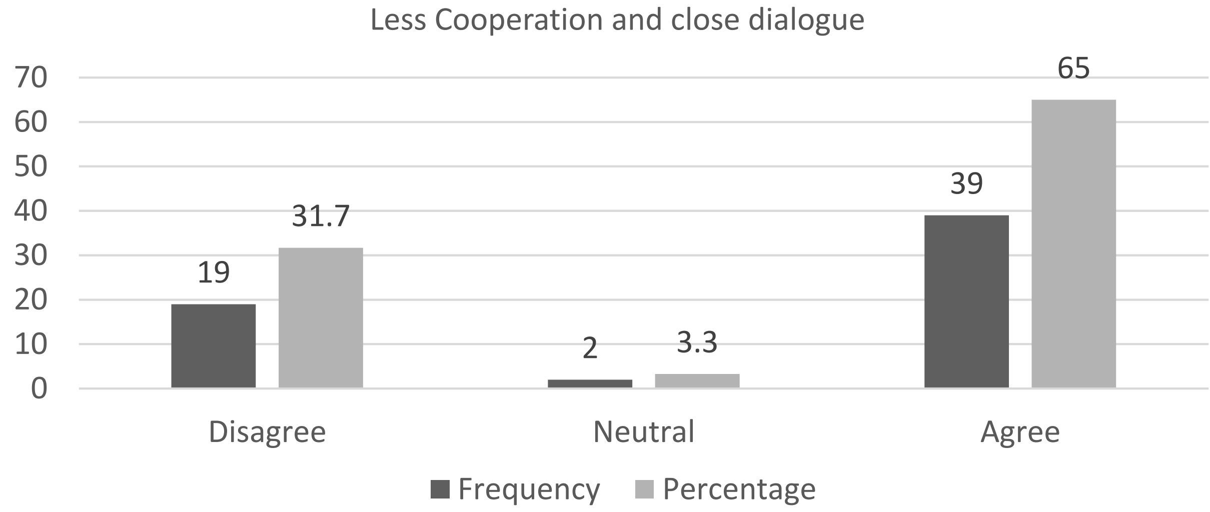

Figure 4. Level of cooperation and dialogue

Figure 4 revealed insufficient collaboration between MFIs and regulatory authorities in Ghana. The 65 percent proof of insufficient dialogue and cooperation sufficiently confirms less effective monitoring and supervision ensuing in the application of the relevant regulations to the operations of the informal MFIs in Ghana. Though the statistics indicated 3.3 percent neutral and 31.7 percent disagreement, together, these portray some selectivity in the sector which, in the view of this study is an impediment to smooth operations of the MFIs. The insufficiency of cooperation between the relevant actors, coupled with inadequate funding, analyzed at 0.913 KMO and less governance or training support with 0.913 KMO, negatively affects the operating and compliance efficiency of the MFIs. The analysis of the variables indicates the relevance of all the factors that have a positive influence on the operations and ultimate performance of the MFIs. Therefore, lack of any of such variables could have a devastating impact on the MFIs, for instance, weak supervision could render implementation of the FMPs less effective.

8. IMPLEMENTATION CHALLENGES

The variables tested identified implementation challenges to have significant influence on the regulatory compliance as well as performance of MFIs in Ghana; with the existing guidelines. The statistical test on implementation challenges indicates the significant importance of this variable at 0.857 KMO, with a Chi-square of 0.000 (Table 1). It is justified that the cluster of variables mentioned in this theme (Tables 3 and 6 (see Appendix)) are important collectively in the operations of the MFIs within the available MF operating guidelines in Ghana. There was a strong level of agreement with the statements in this variable. In other words, all the figures (Table 6 (see Appendix)) indicate that MFIs do not receive adequate education and other support measures for the facilitation of smooth implementation of the regulation or are less willing to comply with such regulations. This means that there is lack of appropriate implementation environment (Hoekstra et al., 2014), which is creating rule infractions and, hence, the problems confronting the MFIs in Ghana.

The results on ‘human resource’ and ‘capacity building’ (Table 3 (see Appendix)) indicates that poor quality human resource does have pervasive implications on the implementation of FMPs. This, coupled with inadequate supplementary guidelines and limited financial capacity of the MFIs, the MFIs can neither attract qualified staff nor develop skills in-house for efficient operations.

By linking ‘implementation challenges’, to the objective of the study that seeks to explore the challenges MFIs face in applying FMPs, the findings reveal that the majority of MFIs are confronted with high minimum capital requirement, with a statistically significant KMO at 0.857 and a capital adequacy test value at 0.892 KMO. Therefore, regular minimum capital review (Table 6 (see Appendix)) constrains the operating capacity of the MFIs. This situation is compounded by high interest rates from the commercial banks, which are the source of MF capital, and double as competitors in the MF sector (Tables 3 and 6) and well as large and ever increasing informal profit businesses licensed as MFIs in Ghana. Other mentionable variables, such as insufficient funding and educational support from the regulatory arms, which put KMO values at 0.905, 0.895, 0.862 and 0.880 for MoFEP, BoG, SEC and GAMC, respectively (Table 3 (see Appendix)), further strengthened the findings and affirm the high level of impact the variables have on the operations and overall performance of MFIs in Ghana.

CONCLUSION

The primary aim of the study was to explore the FMPs pertaining to MFIs in Ghana, their formulation and the implementation of such regulations, along with implementation challenges peculiar to the application of FMPs in Ghana.

As far as regulations are concerned, this paper concludes that adapted prudential regulations do exist for MFIs of all tier levels in Ghana and this policy is regularly reviewed. However, the study concluded that issues relating to minimum capital requirement, capital adequacy and reporting requirements, as well as liquidity regulation aspects of the guidelines for FMPs, are less friendly for implementation. Minimum capital raises ultimately disables most of the MFIs the renewal of their licenses, and this adds to the mass of already illegitimate operators carrying out MF activities in Ghana. The study also discovered that the formulation process lacks sufficient and continual stakeholder involvement. The implication of this is that the operating guidelines have become less effective, as far as the disposition of informal MFIs dominating the Ghanaian MF sector are concerned.

The study, in addition, concludes that support structures, especially technical support are inadequate. Less technical support was affirmed by this study as a recipe for ineffective implementation of the FMPs. Consequently, supervision and monitoring were less effective and were identified as a major cause that generates the proliferation of unlicensed and illegitimate informal MF activities in Ghana.

RECOMMENDATIONS

The paper therefore proposes a model of policy ownership, as discussed earlier, to be facilitated by creation of National Microfinance Oversight Authority (NMfOA), independent of the BoG, which will license, regulate, closely monitor and supervise the various MFIs in Ghana. This authority creates the forum for policy making and implementation with representatives from the Bank of Ghana and the MFIs apex institutions on its board; that is, the sentry will effectively engage stakeholder participation. It, thence, has the overarching oversight of the financial subsector to promote effective implementation of all policies regarding MF operations. This paper indicates this need for a separate office to handle MF operations thereby relieving the central bank of this extra responsibility whilst also serving as a national training center to educate and equip MF management with the requisite financial management and reporting skills that will enhance appropriate and timely reporting, as well as improve sector performance.

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APPENDIX

Expanded tables

Table 1. Rotated Component Matrix*

Regulations and their formulation	Component		
	1	2	3
There are sufficiently clear financial regulations available for microfinance institutions	–0.197	0.015	0.634
Licensing	0.894	0.144	–0.240
Minimum capital requirement	0.932	0.048	–0.199
Capital adequacy	0.821	0.252	0.111
Liquidity management	0.620	0.450	0.196
Branching	0.658	0.412	–0.176
Supervision and compliance	0.316	0.559	0.290
There is sufficient stakeholder participation in policy-making procedures	0.212	0.678	–0.210
There is adequate supplementary guideline or information on the relevant regulations	–0.035	0.851	–0.237
The regulations are constantly reviewed to meet the current market needs of the MFIs	–0.022	–0.154	0.783
Extraction Method: Principal Component Analysis Rotation Method: Varimax with Kaiser Normalization			

Note: * rotation converged in 6 iterations.

Table 2. Rotated Component Matrix*

Implementation, monitoring and supervision	Component			
	1	2	3	4
There is less co-operation and close dialogue between the police-making bodies and the individual institutions	0.740	0.069	–0.020	–0.408
The tier categorisation system enhances service delivery and regulatory compliance	0.741	–0.045	0.205	0.283
Funding	0.046	–0.034	0.913	0.009
Governance	–0.022	0.112	0.913	0.016
Compliance to operational guidelines is inadequate	–0.034	0.036	–0.014	0.858
Always maintain adequate proportion of assets to satisfy the capital adequacy and liquidity management requirements	0.206	0.781	0.250	0.129
Well-balanced governance	0.097	0.898	–0.069	–0.032
Internal audit	–0.015	0.874	0.030	–0.032
Integrated risk management system governing all financial matters	–0.182	0.840	–0.057	–0.064
Association or apex body	0.830	–0.196	0.089	0.260
MoFEP	0.701	–0.199	0.322	0.422
BoG	0.864	–0.173	0.155	0.253
Reporting requirements and frequency of reporting are rather rigid and do not create suitable environment for sustainability of the MFIs	0.655	0.396	–0.171	–0.145
Offsite monitoring (submission of reports) and on-site monitoring (institution visits and assessments) are less integrated	0.816	0.075	–0.108	–0.068
Feedback on financial monitoring reports and references for future actions are rarely provided	0.747	0.179	0.188	0.002
Extraction Method: Principal Component Analysis Rotation Method: Varimax with Kaiser Normalization				

Note: * rotation converged in 5 iterations.

Table 3. Rotated Component Matrix*

Implementation challenges	Component 1	Component 2
Minimum capital requirement	0.857	0.298
Reporting requirements	0.864	0.256
Capital adequacy	0.892	0.305
MoFEP	0.117	0.905
BoG	0.256	0.895
SEC	0.095	0.862
Apex associations	0.290	0.880
The level of competition from the conventional banks is high.	0.622	–0.267
Human resource and capacity building for MFIs is inadequate	0.736	0.226
The constant amendment of the banking operating guidelines for MF, and sections therein, is devastating service provision and highly operationally restrictive	0.769	0.210
Extraction Method: Principal Component Analysis Rotation Method: Varimax with Kaiser Normalization		

Note: * rotation converged in 3 iterations.

Table 4. Regulations and their formulation

Survey statements	Disagree		Neutral		Agree		Chi-square
	Count	Row N %	Count	Row N %	Count	Row N %	p-value
There are sufficiently clear financial regulations available for microfinance institutions	4	6.5%	7	11.3%	51	82.3	0.000
Licensing	44	71.0	2	3.2	16	25.8	0.000
Minimum capital requirement	44	71.0	4	6.5	14	22.6	0.000
Capital adequacy	40	65.6	6	9.8	15	24.6	0.000
Liquidity management	36	60.0	11	18.3	13	21.7	0.000
Branching	38	62.3	4	6.6	19	31.1	0.000
Supervision and compliance	31	52.5	16	27.1	12	20.3	0.006
There is sufficient stakeholder participation in policy-making procedures	31	51.7	13	21.7	16	26.7	0.010
There is adequate supplementary guideline or information on the relevant regulations	38	62.3	5	8.2	18	29.5	0.000
The regulations are constantly reviewed to meet the current market needs of the MFIs	8	13.3	14	23.3	38	63.3	0.000

Table 5. Implementation, monitoring and supervision

Survey statements	Disagree		Neutral		Agree		Chi-square
	Count	Row N %	Count	Row N %	Count	Row N %	p-value
There is less co-operation and close dialogue between the police-making bodies and the individual institutions	19	31.7	2	3.3	39	65.0	0.000
The tier categorisation system enhances service delivery and regulatory compliance	35	56.5	14	22.6	13	21.0	0.001
Funding	33	53.2	20	32.3	9	14.5	0.001
Governance	36	58.1	17	27.4	9	14.5	0.000
Compliance to operational guidelines is inadequate	16	25.8	9	14.5	37	59.7	0.000
Always maintain adequate proportion of assets to satisfy the capital adequacy and liquidity management requirements.	7	11.5	3	4.9	51	83.6	0.000
Well-balanced governance	7	11.3	10	16.1	45	72.6	0.000
Internal audit	5	8.1	10	16.1	47	75.8	0.000
Integrated risk management system governing all financial matters	13	21.3	13	21.3	35	57.4	0.000

Table 5 (cont.). Implementation, monitoring and supervision

Survey statements	Disagree		Neutral		Agree		Chi-square
	Count	Row N %	Count	Row N %	Count	Row N %	p-value
Association or apex body	10	16.9	2	3.4	47	79.7	0.000
MoFEP	12	19.0	9	14.3	42	66.7	0.000
BoG	13	21.3	2	3.3	46	75.4	0.000
Reporting requirements and frequency of reporting are rather rigid and do not create suitable environment for sustainability of the MFIs	12	19.0	8	12.7	43	68.3	0.000
Offsite monitoring (submission of reports) and on-site monitoring (institution visits and assessments) are less integrated	9	14.3	11	17.5	43	68.3	0.000
Feedback on financial monitoring reports and references for future actions are rarely provided	14	22.6	5	8.1	43	69.4	0.000

Table 6. Implementation challenges

Survey statements	Disagree		Neutral		Agree		Chi-square
	Count	Row N %	Count	Row N %	Count	Row N %	p-value
Minimum capital requirement	14	22.6	2	3.2	46	74.2	0.000
Reporting requirements	11	18.0	4	6.6	46	75.4	0.000
Capital adequacy	14	23.0	3	4.9	44	72.1	0.000
MoFEP	10	16.7	9	15.0	41	68.3	0.000
BoG	14	23.0	2	3.3	45	73.8	0.000
SEC	10	16.1	28	45.2	24	38.7	0.013
Apex associations	10	18.2	3	5.5	42	76.4	0.000
The level of competition from the conventional banks is high	4	6.3	1	1.6	58	92.1	0.000
Human resource and capacity building for MFIs is inadequate	13	20.6	3	4.8	47	74.6	0.000
The constant amendment of the banking operating guidelines for MF, and sections therein, is devastating service provision and highly operationally restrictive	15	24.2	4	6.5	43	69.4	0.000