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TOPIC: PERFORMANCE EVALUATION OF FIRST ALLIED SAVINGS AND LOANS LTD AS A MICROFINANCE INSTITUTION

BY

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DECLARATION

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DEDICATION

This thesis is dedicated to the ALMIGHTY GOD for his unfailing mercies and grace upon my life

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I would like to thank the Almighty for His grace, guidance and protection throughout my studies.

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ABSTRACT

Micro-finance refers to the provision of financial and sometimes social intermediation services to low-income clients. Suppliers of micro-finance can be categorized as formal, semi-formal and informal financial institution depending upon the form of regulation. The formal financial institutions as defined by the PNDC Law 225 and PNDC Law 328 for banks and NBFIs respectively (Banks and Non-bank Financial Institutions (NBFIs)) are regulated and supervised by the Bank of Ghana

The main objective of this work is to evaluate the performance of First Allied Savings & Loans Limited (FASL) as a micro financial institution and its ability at promoting a more facilitating environment with regards to the development of micro, small and medium term enterprises in Ghana.

The framework governing the micro-finance industry to ensure that the MFIs have sound portfolio performance, low delinquency ratios, high diversification to reduce risk, ensure safety of deposit and low liquidity risk has been reviewed

Extensive analyses, of FASL as a Microfinancial Institution and its operations have also been espoused and vividly shown what FASL as micro finance Institution stand for.

The performance of FASL since its establishment has been reviewed and the inductions are that the Institution has performed creditably, thus enhancing the Government of Ghana's policy on the growth of microfinance. This foreshadows the creation of future for the industrial growth and development of Ghana' SME's sector

Further, detailed financial performance analysis, impact of portfolios granted, contribution to employment, socio-economic impact and social responsibility contribution have been diagnosed and explained with emphasis on problems of the sector and recommendations made to ensure growth and expansion for the benefit of Ghana's development.

. **Table of Contents**

Title	Page
Declaration	i
Dedication	ii
Acknowledgement	iii
Abstract	iv
Table of contents	V
CHAPTER ONE: INTRODUCTION	
1.0 Introduction	1
1.1 Background of study	2
1.2. Statement of the problem	5
1.3 Objectives of the study	5
1.4 Justification of the study	6
1.5 Methodology	7
1.5.1 Data collection	7
1.5.2 Data analysis	8
1.6 The scope of study	9
1.7 Limitation	9
1.8 Organization of the study	9
CHAPTER TWO: LITRETURE REVIEW	
2.1 The overview of the financial industry in Ghana...	11
2.2 Micro Finance Institutions	16
2.3 Scope of micro – Finance	17
2.4 Legal & regulatory texts regarding NBFIs operating in Ghana	19
2.4.1 The establishment of NBFIs in Ghana	19
2.4.2 NBFIs Regulatory	22

2.5 Nature of operations-microfinance Institutions 22

2.5.1 Introduction 22

2.5.2Licensing procedure for Micro-finance by BOG 23

2.5.3License Requirements for NBFIs 24

2.5.4 Pre- operating requirements 25

2.5.5 Submission of reports 26

2.5.6 Reasons for the establishing a Micro Finance Institution 26

2.6 Financing & development of micro-finance institutions 27

2.6.1. The development of Micro –Finance 27

2.6.2. Donor support to the development of micro- financing industry 28

2.6.3 Attempt at financing small, micro and medium scale enterprises 29

2.6.4. The role of Government 32

2.7 Problems facing the micro-finance sector... 34

2.8 Measuring operating and financial performance 36

2.8.1 Purposes, uses and types of ratios 37

2.8.2 Standards of comparison 40

2.8.3 Limitations of ratio analysis 41

CHAPTER THREE: METHODOLOGY AND COMPANY PROFILE

3.1 Scope 42

3.2 Data Sources 42

3.3 Methods of Data Analysis 43

3.4 Limitation 43

3.5 History and Background 45

3.6 Profile of Shareholdings 46

3.7The institutions governance and management operations 47

3.7.1Organizational Structure 47

3.7.2Board of Directors 47

3.7.3Management Team 47

3.8 Key operation 48

3.9 Key financial indicators –End of year 2006 49

3.10 The institution products and activities 50

3.10.1 Deposit-taking Products 50

3.10.2 Advance Granting Products 52

CHAPTER 4: DATA ANALYSIS AND DISCUSSION

4.1Financial performance of FASL – 2001- 2008 54

4.2 Performance analysis of FASL 57

4.3 Ratios and graphical of FASL's performance 60

4.3.1 Profitability ratios 60

4.3.2liquidity ratios 62

4.3.3 Leverage ratios 64

4.3.4 Activity ratios 66

4.3.5 Efficiency ratios... 68

4.3.6 Investor ratios 70

4.4 Growth trend analysis 72

4.5 Real terms data analysis of FASL'S performance 74

4.6 Deposit mobilization trend analysis 75

4.7 Deposit customer base 75

4. 8 Portfolio analysis 76

CHAPTER FIVE: SUMMARY OF FIDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 The objective of the thesis 79

5.2 Performance indicators and the financial sector development 79

5.3 FASL operational constraints and limitations 81

5.3.1 Regulatory constraints 81

5.3.2 High micro finance operational cost 82

5.3.3 Inaccurate reporting systems and delay in submission of report 82

5.3.4 Lack of an Integrated Information System 83

5.3.5 Lack of operational policies and manual 84

5.3.6 Poor recovery rate 84

5.3.7 Human resource planning and training weaknesses 85

5.3.8 Lack of Competitive Intelligence System 86

5.4 Conclusion 87

5.5 Recommendations for the development of micro-finance institutions and FASL ltd ... 90

5.5.1 Regulatory and Supervisory Approach 90

5.5.2 The legal approach 90

5.5.3 Strengthening of microfinance apex body for effective regulation and supervision ... 91

5.5.4 Micro- credit Delivery System 91

5.5.5 The role of government 91

5.5.6 Competitive Intelligence System 92

BIBLIOGRAPHY 93

Appendix 97

List of Tables

Table 4.1(Profit and Loss Accounts, 2001-2008) 54

Table 4.2(Income Surplus Accounts, 2001-2008) 55

Table 4.3(Balanced Sheet, 2001-2008) 56

Table 4.4(Profitability Ratios) 60

Table 4.5(Liquidity Ratios) 62

Table 4.6(Leverage Ratios) 64

Table 4.7(Activity Ratios) 66

Table 4.8(Efficiency Ratios) 68

Table 4.9(Investor Ratios) 70

Table 4.10(Growth Trend Analysis) 72

Table 4.11(Account Inflationary Trends, 2001-2008) 74

Table 4.12(Interest Trends, 2001-2008) 74

Table 4.13(Deposit Mobilization Trend Analysis) 75

Table 4.14(Deposit Customer Base) 75

Table 4.15(Portfolio Analysis) 76

List of Figures

Fig 4.1(Bar Chart of Profitability Ratios) 60

Fig 4.2(Bar Chart of Liquidity Ratios) 62

Fig 4.3(A Line Plot of Leverage Ratios) 64

Fig 4.4(A Bar Graph of Activity Ratios) 66

Fig 4.5(A Line Graph of Efficiency Ratios) 68

Fig 4.6(A Line Plot of Investor Ratios) 70

Fig 4.7(A Bar Chart of Growth Trends) 72

List of Acronyms

ERP – Economic Recovery Programme

IMF – International Monetary Fund

SAP – Structural Adjustment Programme

FINSAP – Financial Sector Adjustment Progamme

NBFI – Non Bank Financial Institution

BOG – Bank of Ghana

FASL – First Allied Savings & Loans Limited

MFI – Micro Finance Institution

MSB – Micro Enterprise & Small Business

ROCSA – Rotating Savings & Credit Associations

NGO – Non Governmental Organization

MSME – Micro, Small & Medium Enterprises

NBSSI – National Board for Small Scale Industries

PAMSCAD – Programme of Action to Mitigate the Social Cost of Adjustment and Development

BOD – Board of Directors

CHAPTER ONE

GENERAL INTRODUCTION

1.0 INTRODUCTION

The concept of micro financing has been known and used for many years but not well developed in the Ghanaian economy. The bank of Ghana in **1976** promulgated the rural banking idea and established it as a supplement to the commercial and development banking and as a boost to facilitate business transactions and financial services for the general development in the rural areas. Among their functions are:

a. to mobilize savings in the rural communities and channel them through provision of credits.

b. to offer credit to rural dwellers engaged in farming, trading and cottage industry; assist the rural communities in initiating socio-economic projects to improve their living conditions.

c. to monetize the rural community by way of inculcating in the rural dwellers the banking habit; serve as instrument for the development of business in the rural communities and thereby facilitate the rapid growth of the national economy.

Financial services and their accessibility play a crucial role in the economic growth of any country. However, this goal for economic growth was impeded among other things by the lack of a diversified and in-depth financial system capable of not only meeting the financing requirements of households, informal enterprises, the self-employed and the poor, but also providing them the necessary support and sustenance in the economic activity in which they are involved.

1.1 BACKGROUND OF STUDY

The rural banking concept was plagued with problems even though they chalked some successes with their objectives. It was in the light of these and other constraints faced by the banking sector and other financial institutions that the Economic Recovery Programme was proposed and promoted by the government and its allied bodies.

In 1983, the Government of Ghana embarked on an Economic Recovery Programme **(ERP)** after determining the macro economic framework jointly with the World Bank and International Monetary Fund **(IMF)**. The objectives of programme were: to free the economy from state controls and market distortions, promote a liberalized private-sector led trade and investment regime, pursue an export-led economic growth strategy and the restructure of the public sector of the economy in order to improve the prospect of growth.

The recovery programme which was pursued in three phases spanned from 1983-1993. The first phase was focused on stabilizing the economy by reducing severe imbalances in government finances, restraining credit expansion and encouraging productive activities (1983-1986).

The second phase which covered the period of 1987-1989 and called **Structural Adjustment Programme (SAP)** was sought to rehabilitate the economy by tackling structural imbalance through removal of major bottlenecks in the economy and laying the foundation for sustained growth.

The third and final stage also focused on the accelerated structural and institutional reforms, and by laying of firmer foundation for growth of the private sector included **Financial Structural Adjustment Programme (FINSAP).**

The **FINSAP** which was implemented in two stages of **FINSAP I (1989-1990)** and **FINSAP II (1991-1993)** had the broad objectives of enhancing sound banking system through improved regulatory and supervisory framework and to improve the mobilization and allocation of financial resources including development of money and capital markets.

The FINSAP was implemented in two stages

FINSAP I (1989-1990) saw the enactment of a new banking law PNDC Law 225 in 1989 which focused on the improvement in the banking sector for independent financial performance and to ensure liberalized financial sector from state control.

FINSAP II also brought about the enactment of financial institution (non-banking) law 328. This sought to provide supervisory and regulatory framework for non-bank financial institutions (NBFIs).

In the past the government competed with firms and individuals to access funds from conventional banks with the individual especially the poor self-employed or low income customer missing out. These conventional banks often varied cost and risks to the detriment of the poor self-employed. The banks often cited cost, profit, risk and collateral among others as reasons to deny the poor self-employed or low income customers access to credit.

However, Microfinance Institutions (MFIs) have emerged to address this market failure and provide financial service to low-income customers (Littlefield and Rosenberg, 2004). In Africa, the poor self–employed or low income customers are proving to be reliable, stable customers who make MFIs twice as profitable as commercial banks (Littlefield and Holtmann, 2005). A recent survey depicts that the 163 African microfinance leaders provide $742 million in loans to 2.5 million customers and deposit service of $713 million to 6.4 million customers. The portfolio at risk rates average 4% on par with microfinance operations worldwide. The average return on assets on MFIs globally is 3.9% as against 2.1% for commercial banks (Littlefield and Holtmann, Ibid).

Moreover, the Ghanaian financial environment is replete with instances or activities which serve as indicators as to how profitable the microfinance industry might be. Some successful commercial banks are extending their operations into the microfinance industry. A recent example is Barclays Bank, who has expanded its activities into micro- banking. The bank has teamed up with about 173 "susu" collectors to extend appropriate financial services and training for the many unbanked Ghanaians (Daily Graphic, February 15 2007, page 32).

1.2. STATEMENT OF THE PROBLEM

Micro Finance traces its roots to social and development objective for eradicating poverty among the very poor and vulnerable in society. Considering the recent developments in the microfinance industry and developments in the banking sector, this research work is sought to assess how the introduction of the NBFIs law 328 has impacted on the growth and sustainability of small and micro enterprises and to also assess the extent to which Ghanaian business community and the informal sector have accepted the savings and loans in the form of NBFI as an alternative to satisfying their financial intermediation needs. The comprehensive study of the performance of First Allied Savings and Loans Limited (FASL) will help test, if trends in their performance replicate the pattern in the microfinance industry so that its performance could serve as a benchmark for emerging microfinance banks.

1.3 OBJECTIVES OF THE STUDY

The overall objective of this project is to review the performance of First Allied Savings & Loans Limited (FASL) and its ability of promoting a more favorable environment for the development of SME's in Ghana.

The specific objectives are

i. To conduct financial analysis of FASL to ascertain for the past eight (8) years its profitability, liquidity, leverage, efficiency and growth trends and to assess its impact on Ghana's economic growth agenda.

ii. Examine shareholder ratios.

iii. To describe in detail the various portfolios by FASL and their impact on economic activities within its catchment's area

iv. To make recommendations that will assist decision makers/ policy makers on how to enhance the growth of poverty alleviation in Ghana.

1.4 JUSTIFICATION OF THE STUDY

Microfinance industry deepens the financial system and has the potential to promote the growth of the private sector. Development of the private sector is a key policy of government. It is therefore necessary to do a study of this industry.

This study will serve as a guide to policy makers, industry operators and the general public at large to determine the impact of the Savings and Loans institution as NBFIs on the economy. It may also bring to the fore the crucial role MFIs plays in deepening the financial system.

Furthermore, the significance of the study is to understand the operations of FASL's performance and then to use that as a basis for comparative analysis and study in future operations of micro finance institutions.

1.5 METHODOLOGY

This study will use both primary and secondary data sources in the forms of structured and unstructured questionnaire and personal interviews of practitioners and policy makers. Annual reports and strategic plans of FASL Ltd will also be obtained for studies and analysis.

The methodology will be grouped into two (2) categories

1. Data Collection
2. Data Analysis

1.5.1. Data Collection

The research was based on two categories on data collection. They are primary and secondary

a. Primary data collection

This will be based on personal interviews and unstructured questionnaires from Directors and Management staff of FASL Ltd.

b. Secondary data source

Secondary sources such as Bank of Ghana's (BOG) on-site and off-site reports, Data bank's due diligence report to Africap Micro finance, Ghana Microfinance Institutions Network(Ghamfin) reports, Statistical and Economic Research (ISSER), Microfinance consensus guidelines and Ministry of Finance and Economic Planning reports on the general trend of the economy and other publications will be used to gather information on savings and loans performance for the study.

1.5.2. Data Analysis

Various data analytical methods will used in assessing the performance of FASL Ltd for its existence in the last eight years

Data analysis methods used were financial statements and operational reviews of the Institution for the last eight years.

Various financial ratios such as liquidity, efficiency, profitability, leverage, activities and investor's ratios will be used to assess the institution's performance so far.

These will be put into graphical demonstrations for the purpose of assessing FASL financial performance in its years of operations. The nominal terms assessment for the performance of FASL will be translated into real term data analysis to ascertain the efficiency level of the Institution's asset used. Also, calculations of percentages and simple proportions were demonstrated to further assess the firm's impact on society in the in the forms of loan performance on the growth of micro, small and medium term businesses, social impact on poverty reduction, recovery rate of the loans granted and the institutions contribution to employment generation and the fulfillment social responsibility activities.

1.6 THE SCOPE OF STUDY

The research will look at a period of 8years that is 2001-2008. This period is chosen because it falls within the span of time that the country has witnessed economic stability and can also form the basis of objective assessment

1.7 LIMITATIONS

A lot of constraints were encountered in this project work. First of all, Ghanaian companies' are less transparent with information. The success of getting the needed information will also depend highly on the goodwill of the officials involved and the level of confidence they will have in me that information divulged would not be disclosed to their competitors. Time constraint was another factor as a lot of time was used in search for the gathered information as they were completely scattered.

The trustworthiness of respondents cannot be guaranteed, since personal opinion can influence responses.

In view of these limitations, generalized conclusions may not be made out of the findings. However, it can serve as a useful input into decision and policy making.

1.8 ORGANIZATION OF THE STUDY

This project work will be organized into five chapters.

CHAPTER ONE: Covers Introduction, Statement of the Problem, Objectives, Justification, Methodology, Scope, Limitations and Structure of the Study.

CHAPTER TWO: This chapter will review literature on savings and loans companies' and the NBFIs and their effects on the economy of Ghana and the growth of world-wide micro finance institutions.

CHAPTER THREE: This chapter will focus on the historical background, organizational set-up and the performance of FASL Ltd in the savings and loans industry.

CHAPTER FOUR: This will focus on analysis and discussion of findings.

CHAPTER FIVE: This chapter will discuss conclusions and recommendations and as well distill some for policy lessons.

CHAPTER 2

LITERATURE REVIEW

2.1 THE OVERVIEW OF FINANCIAL INDUSTRY IN GHANA

Microfinance is defined by what it does: self help through financing the entrepreneurial abilities of the poor. (Counts and Fukuyama, 2005).

Definitions differ, of course, from country to country. Some of the defining criteria used include;

- Size - loans are micro, or very small in size.
- Target Users - micro entrepreneurs and low income households.
- Utilization -The use of funds- for income generation, and enterprise development, but also for community use (health/ education) etc.
- Terms and Conditions - Most terms and conditions for microcredit loans are flexible and easy to understand, and suited to the local conditions of the community. (The Virtual Library on Microcredit).

Microcredit is the extension of small loans to entrepreneurs too poor to qualify for traditional bank loans. It enables those without access to lending institutions to borrow at bank rates, and start small businesses. (The Virtual Library on Microcredit)

These individuals lack collateral, steady employment and verifiable credit history and therefore cannot meet even the most minimal qualifications to gain access to traditional credit. Microcredit is a part of microfinance, which is the provision of financial services to the very poor; apart from loans, it includes savings, micro insurance and other financial innovations. (Wikipedia, the free encyclopedia)

The banking sector in Ghana has undergone various changes over the years. Economic programmes of the years have also impacted upon the banking sector. Some of these programmes are the Economic Recovery Programmes, the Structural Adjustment Programme and the Financial Structural Adjustment Programme (FINSAP).

The FINSAP was implemented in two stages. FINSAP 1 spanned 1989-1990, whiles FINSAP 11 1991-1993. The FINSAP had the broad objectives of promoting a sound banking through improved regulatory and supervisory framework and also improve the mobilization and allocation of financial resources and the development of money and capital markets.

FINSAP 1 saw a new banking law PNDCL 225 enacted. This law liberalized the banking sector and focused on the improvement in the banking sector for independent financial performance.

FINSAP 11 also saw the enactment of the Financial Institution (Non-Banking) Law 328. This Law provides supervisory and regulatory framework for Non–Banking Financial Institutions (NBFIs)

The Law defines NBFI as "any non-banking financial institution which carries on the business of or part of whose business is, any of the following characteristics:

a. taking deposits;

b. financing of any activity by way of making loans or advances or otherwise other than its own;

c. Companies not otherwise regulated under the Securities Industry Law dealing in shares, stock, bonds, debentures or securities issued by the Government or a company or other marketable securities;

d. Leasing, letting or delivering of goods to hirer under a hire purchase agreement;

e. Carrying on by insurance companies of any business other than insurance;

The law identifies institutions which are

1. Discount Companies
2. Finance Houses
3. Acceptance Houses
4. Building Societies
5. Leasing and Hire-Purchase Companies
6. Venture Capital Funding Companies
7. Mortgage Financing Companies
8. Savings and loans Companies
9. Credit Unions

(Databank's report, 2003), emphasize that the financial sector over the years has undergone some major transformation since the colonial era. During the colonial period, the then government focused its attention on monetary stability, and monetary growth was tied to export performance. Banking services then were geared towards the facilitation of trade between the British merchants and the colony. The financial system then transformed the colonial economy from a barter system to a modern currency system. At the time, there were virtually no NBFIs in the country except some insurance companies which provided commercial risk coverage for the trading houses.

According to (Databank report, 2003), the post independence era up to 1983 saw the adoption of a planned and closed economy with a wide range of restrictions on the financial sector. The restrictions involved import licensing, exchange controls and directed lending. These developments led to a complete domination and control of the banking industry by the government. The Bank of Ghana then carried out all international banking involving remittances, letters of credit, collections, allocations of foreign exchange, travel or tourism. The Bank of Ghana was empowered to control the banking system, set ceilings on advances or investments banks. A greater portion of the commercial banks' loan portfolio went to meet public sector borrowing requirement and the state enterprises. Capital could not therefore be allocated to the most productive project.

To further control the banking system, the Bank of Ghana provided the seed capital for the establishment of development banks to mobilize funds to finance medium and long-term investments

Rural Banks were also set up (in 1976) to provide banking services to the rural communities. The non-bank financial sector was relatively undeveloped except for the existence of State Insurance Corporation (SIC) and National Trust Holding Company (NTHC). The control systems created serious distortions in the financial sector and also in the whole economy. The serious distortions in the financial sector led to the adoption of the Economic Recovery Programme (ERP) in 1983 to liberalize the economy and therefore the financial sector. The programme was designed to:

- restore discipline into government's fiscal and monetary policies;
- encourage the growth of productive sectors; and
- promote the private sector within the framework of an enabling environment.

The government implemented a Structural Adjustment Programme (SAP) in late 1986 to remove major structural bottlenecks in the economy and to lay a solid foundation for sustained growth. The Government also pursued free market policies which included: trade liberalization, a systematic devaluation of the cedi and the removal of subsidies on most goods and services.

These measures have resulted in:

a. an average of four (4) to five (5) percent growth rate of GDP since 1983

b. improvement in export earnings especially non-traditional export

c. a reasonable growth in financial sector which is playing a crucial role in the financial exchange auction and establishment of forex bureau.

For (Andah, 2000) the financial sector was further reformed through

- restructuring of financially distressed banks,
- Supervisory framework of the banking system,
- Improvement in the mobilization and allocation of financial resources including development of money and capital markets, and
- Promotion of the development of non-bank financial institutions.

The financial sector reform was further enhanced through the reduction of state shareholdings in Ghanaian financial institutions.

The financial sector reform has resulted in banks meeting capital adequacy standard and privatization of some state owned financial institutions.

Significant in the financial sector adjustment is the change in the rapid growth of NBFIs.

To (Debrah, 1998), in 1993 the Financial Institutions (Non-Banking) Law was passed to provide a legal framework for a whole new set of financial institutions that were being established. The institutions include discount houses, finance houses, acceptance houses, mortgage finance, hire purchase, building societies, savings & loans, leasing companies and venture capital companies.

2.2 MICROFINANCE INSTITUTIONS (MFI)

Financial institutions dedicated to assisting small enterprises, the poor, and households who have no access to the more institutionalized financial system, in mobilizing savings, and obtaining access to financial services. (Basu et al., 2004).

Financial institutions that seek to provide small-scale credit and other financial services to low income households and very small informal businesses. They also provide a mechanism for the poor to smooth the effects of income shocks on consumption, find safe and affordable repositories for their savings, take advantage of profitable investment opportunities, and insure risk. (IMF, 2005).

2.3 SCOPE OF MICRO-FINANCE

(Ledgerwood 1998), identified Micro- finance as an economic development tool, that has evolved as an approach to benefit low income women and men in both rural and urban centres. It refers to the provision of financial and sometimes social intermediation services to the low-income clients including the self-employed. Financial intermediation refers to the provision of financial products and services such as savings, credits, insurance, credit cards and payment systems. Social intermediation is the process by which investment is made in the building up of both human and institutional capacity with the aim of increasing self-reliance of marginalized groups and preparing them to engage in formal financial intermediation.

(Business in Ghana, 1998), emphasized the main financial services provided in Ghana are savings mobilization and credit delivery whilst the social intermediation include group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group.

Suppliers of micro-finance services can be categorized into three (3) main types based on the extent and nature of regulation and supervision by a country's authorities. In general financial institutions or agents are categorized as formal, semi-formal and informal institutions.

(Ledgerwood, 1998) and (Sekyi-Dawson et al, 2000), agreed that, the formal micro-finance institutions are subject to banking regulations and supervision. They may be either publicly or privately owned.

The semi-formal institutions, according to (Ledgerwood, 1998) are normally not regulated by banking authorities but are usually licensed and supervised by other government agencies. They include credit unions, some savings and loans companies and co-operatives. Some NGOs' are sometimes considered part of the semi-formal sector because they are often legally registered entities that are subject to some form of supervision or reporting requirement.

Informal micro-finance institutions operate outside the structure of government regulation and supervision. They include 'Susu" collector, local money lenders, self-help groups, some NGOs', as well as savings of family members.

To (Business in Ghana Journal, 1998), the financial institutions are categorized generally into three groups.

i. Traditional Banking System: Banks are regulated by the Banking Law of Ghana 1989 P.N.D.C Law 225 under the supervision of the Central Bank. They include the Commercial, Development, Merchant, Rural and Community banks.

ii. NBFIs: These are specialized institutions in Ghana that supplement the traditional banking available. These institutions are regulated by financial institutions (Non-banking) Law 1993 P.N.DC Law 328.

The regulating authority is the Bank of Ghana. Example of this group includes the Discount Houses, Building Societies, Savings & Loans companies and Credit Unions.

iii. Informal Credit bodies: These are unregistered bodies or individuals who are involved in financial intermediation. They are neither regulated nor supervised by any organized authority. Examples include the "Susu" collectors and Moneylenders.

2.4 LEGAL & REGULATORY TEXTS REGARDING NBFIs OPERATIONS IN GHANA

2.4.1 The establishment of NBFIs in Ghana

(Debrah, 1998) examined the micro finance sector as a provider of finance for development and promotion of the medium and small scale enterprises in the country. He said until recently, however, the sector has been dominated by informal systems like Susu schemes and credit unions without appropriate policies to ensure its growth. He elaborated on the conscious efforts that have been made lately to promote the micro-finance sector in the country through the promulgation of the NBFIs Law to formalize and regulate the operations of players within the sector. The promulgation of the NBFI Law has led to the establishment of micro-finance institutions, the urban counterparts to the rural banks.

These NBFIs he said exist because not all intermediation services require an institutional framework as sophisticated as that of a bank. Given the huge number of micro and small enterprises and the vibrant character of Ghanaian markets, there is undoubtedly a substantial demand for financial services for such enterprises.

(Amha, 2000) elaborated that the delivery of efficient and effective micro-finance services to the poor (be it rural or urban settings) requires conducive macroeconomic policies and the establishment and enforcement of legal and regulatory frameworks.

Prudential financial regulation, according to (Chaves and Gonzales-Vega, 1994), refers to the general principles or legal rules that aim to contribute to a stable and efficient performance of financial institutions and markets and ensure the safety and soundness of the system. However, regulations in the micro-finance industry do not only mean government regulations, it also involves self-regulations and code of conducts introduced by networks or associations.

From (Amha, 2000), regulatory frameworks governing the micro-finance industry should ensure that MFIs has a sound portfolio performance, low delinquency or default rate, high diversification to reduce the risk of specializing in the delivery of one loan product, ensure the safety of deposits through equity capital, ensure lower levels of liquidity risk, provide regular and high quality financial information and reduce the risk arising from dependency on subsidy and influence of donors.

There are numerous policies, laws and directives that affect the development of the micro-finance industry and micro and small enterprise development in Ghana. An attempt is made here to review only the most relevant and recent policies affecting the industry.

The core statutes and regulations that regulates NBFIs, depending upon its regulatory body in Ghana include the following, (Dawson, 2000)

1. The constitution of Ghana , 1992
2. Bank of Ghana Law, 1992 (PNDCL 291)
3. Banking Law, 1989 (PNDCL 225)
4. Financial Institution (Non-Banking) Law, PNDCL 328)
5. Bills of Exchange Act 1961 (Act 55)
6. Companies Code, 1963 (Act 179)
7. Company regulation of each Financial Institution
8. Bank of Ghana Notices, Regulations and Directives

9. Serious Fraud Office Act, 1993 (Act 466)

10. Co-operative Decree, 1968 N. L. C 252

2.4.2NBFIs Regulatory

For the purpose of regulation, the NBFI regulating manual classifies the Institution as Depository and Non-Depository Institutions

Depository Institutions are those that accept deposits from public, wholesale funds from banks and corporate bodies and also grant scheduled loans to individuals, institutions and banks only.

Non-Depository taking Institutions are those which do not accept wholesale or public deposits, however are licensed to granting scheduled loans.

For the purpose of this study, attention will be focused on depository financial institutions that are involved in micro finance and are supervised by Bank of Ghana with respect to Savings and Loans Companies.

2.5 NATURE OF OPERATIONS – MICRO FINANCE INSTITUTIONS

2.5.1 Introduction

(Banking & Financial Law Journal of Ghana, 1998) explained that, the micro finance industry as the oldest financing set-up in Ghana but the latest to be given qualified recognition as a segment of the financial system. It is popularly referred to as the "informal sector" of the financial system. It is so called because until two decades or so ago it was essentially controlled by unregistered and unregulated financial entities which provided credit and other financial services to small and micro enterprises. These enterprises too were/are neither registered as business entities nor operated under the nation's business laws. Thus national financial laws and regulations do not apply to micro finance entities. It is in this sense that the micro finance entities are said to constitute the informal sector.

The operational requirements according to (Cameadow 1996) are the things that an organization needs in order to operate successfully and more importantly to the standards set by the regulatory or supervisory authority.

2.5.2Licensing procedure for Micro-finance by BOG

(Adjei, 2001), classified the following as the minimum requirements and conditions for licensing financial institutions under BOG supervisory and regulatory authority. The promoters/directors of the prospective financial institutions shall apply to the secretary, BOG to purchase prescribed application form. Also completed application form should be submitted with the attachments to the secretary of the BOG for processing. Successful applicants are informed in writing and advised to pay prescribed license fee. License will not be issued to successful applicant until they have obtained a Certification of Specification from BOG as specified in the pre-operating condition set out.

2.5.3 License Requirements for NBFIs

Application for license to operate the business of a NBFIs should be a body corporate incorporated in Ghana. The principal line of the business should be in conformity with the business of one of the categories of institutions listed in the schedule to the law.

The application should be on the prescribed forms and obtained from the secretary, BOG and be accompanied by:

i. feasibility reports showing projected operations and balance sheets over a three-year period.

ii. the company's regulation and its certificate of incorporation.

iii. curriculum vitae of the promoters or directors and principal officers, especially the Chief Executive Officer

iv. personal financial statements of directors and promoters.

The applicants should meet the minimum start-up capital requirement which is now set at ¢15 billion for institutions taking deposit and ¢10 billion for those not taking public deposits. In the case of foreign ownership not less than 60% of the required capitalization should be brought into Ghana in convertible currency.

Concerning the promoters, directors and principal officers, they should be declared "fit and proper persons". In addition to this they should have:

a. adequate professional qualification

b. relevant professional experience

c. moral stature; and

d. good financial standing.

2.5.4 Pre- operating requirements

Approved institutions should not commence business until they obtained a certificate of specification from BOG. Such a certificate should be issued only upon fulfillment of the following requirements and demonstration of readiness to commence business by the institution.

a. capital subscribed and received

b. competent key personnel in place

c. adequate of staffing

d. premises:

i . sufficiency of title deeds/lease agreement

ii. approvals by relevant authorities

iii. adequacy of business premises, staff , operating area, ventilation lighting etc, and

iv. display of name and other requirements under section 8 of PNDC L 328

e. security of premises including adequacy of alarm systems, fire extinguishers, vaults or safes etc.

f. insurance – fire, burglary, fidelity guarantee etc

g. capital stock or shareholders' register

h. operational plan and policies approved by the board

i. accounting procedures manual, general ledger and subsidiary ledgers

j. submission of financial statement of affairs

2.5.5 Submission of reports

All NBFIs are required by law to present to BOG the following

a. weekly liquidity returns.

b. monthly balance sheet

c. quarterly profit and loss accounts and balances sheet

d. quarterly portfolio classification

e. sectoral distribution of loans

f. annual returns (audited accounts)

g. annual long audit report

2.5.6 Reasons for the establishing a Micro Finance Institution

The reasons for the establishment of micro finance institutions were further elaborated by (Siriboe, 1997) that the purpose of establishing the institution was to meet at close range the needs of its targeted clients who are mainly women. He further emphasized that the rational for targeting the informal micro and small business sector as its niche market was based on its conviction that it is not only economically viable, but also socially and develop mentally right to be part of the process of supporting national effort at generating employment and poverty alleviation through improved access to credit and other facilities to micro and small entrepreneurs, in the light of their potential contributions to family income and general social development.

(International Finance Corporation, 2001) reported that the primary objective of NBFIs have been to address the issues and constraints of inadequate finance and the lack of access to credit for a large segment of the economy referred to as the informal sector.

2.6 FINANCING & DEVELOPMENT OF MICRO-FINANCE INSTITUTIONS

2.6.1. The development of Micro -Finance

(The Banking and Financial Law Journal of Ghana, 1998), emphasized that, micro and small business traditionally, used to obtain their credit or financial assistance from their own savings, family sources, local money lenders, savings and credit associations and others. Recently, the traditional sources of micro – finance have expanded to include some commercial, development and rural banks, non-governmental organizations, finance companies, co-operatives, savings and credits associations and other intermediaries.

(Fernandez and Opare 2004) discussed the sources of capital for micro-finance business and said that formal financial institutions in emerging markets, particularly commercial banks throughout Africa continue to face many challenges and uncertainties in lending to micro, small and medium enterprises (MSMEs). However, past experiences both good and bad, can help establish best practices to adopt in order to create a viable, sustainable, and profitable micro-finance portfolio within a formal financial institution such as commercial bank. They further indicated how the micro finance business was pioneered in Bolivia and Indonesia and other African commercial financial institutions in South Africa, Egypt, Benin, Senegal, Kenya and Uganda have successfully exploited this opportunity. They further gave example of FINADEV, as the micro finance unit of the Financial Bank Group in Benin, which serves borrowers in urban and semi-urban areas, and has partnered with the office of Posts and Telecommunication to open rural branches in their offices.

In spite of these advantages, commercial banks in other African countries such as Ghana, have hard time developing programmes and products to serve MSMEs. They often lack the staff or board members committed to serving a pre-requisite to success. Though, bankers often try to fit the new line of business within the existing organizational structure, a strategy that fails more than it succeeds. Commercial banks often develop financial products and services for MSMEs without conducting market research resulting in inappropriate methodologies for this market.

2.6.2. Donor support to the development of micro- financing industry

As a consequence of lack of involvement of commercial banks, as (Fernandez and Opare, 2004) put it, capital flow into MSMEs sector in these countries is mainly from donor agencies and government.

To help ease the small business capital crunch, (International Finance Corporation (IFC), 2001) recently took part in the creation of a new global NGO, the institute for SME Finance. Launched in Washington in July 2000, the institute promotes greater and more effective use of risk capital –based on investment in growing entrepreneurial firms.

The institute, founded and managed by one of the world's leading experts in SME equity investment is working on several fronts with investors, governments, development institutions, and others to help more SMEs obtain these appropriate forms of financing. It objectives include:

a. Improving the SMEs sector's reputation among financial institution.

b. Expanding access to long-term investment capital

c. Improving enterprise performance through active investment strategies

d. Promoting a local culture of equity investment

e. Furthering linkages between the SMEs sector and local and international capital market.

Donor agencies, for example, often face problems in creating sustainable market-oriented lending systems, as the source of funds flowing into by a donor agency may vary greatly over different time periods, and the threat of reduced funding is always a concern. In addition, as opposed to letting funds move freely into the market, many donor agencies impose market-distorting conditions on their funds, often providing loans to certain customers, while more optimal targets, from a strictly business perspective are ignored.

2.6.3 Attempt at financing small, micro and medium scale enterprises

Attempts at financing small-scale industries started as far back as 1934 with the establishment of Bureau of African Industries at Takoradi. According to (Gold Coast Examiner, 1938), the Bureau organized the marketing on non-profit basis the items produced by local craftsmen. By the year 1939, the bureau had organized more than one exhibition of locally manufactured goods but as has rightly been asserted, it could do very little to stimulate the craft industry since it was only one of its kind

The establishment of Industrial Development Corporation in 1947 to provide financial assistance to certain category of small-scale industries did very little to provide an impetus to take-off.

To (Deveer, 1982), after independence, responsibility for the development of small-scale industries was frequently shifted from one agency to the other. This fact has pointed to be the major factor which has hampered its systematic development more than unawareness of their potential.

Before 1966, small scale business development responsibility rested with the division of Rural set up under the Ministry of Industries. However, after 1966, responsibility was transferred to the ministry of Youth and Rural Development. This Ministry made several new proposals for the setting up and promotion of small- scale businesses but its plans were never carried through before the overthrow of the government of the Progress Party in 1972.

In 1972, the development of small-scale businesses unit was reverted to the Rural Planning Unit of the Ministry of Labour and Social Welfare and Community Development. To present agencies administered assistance in one form or another to the small enterprises development include the Bank of Ghana, the Enterprise Development Commission, the national Investment Bank, and the Technology Consultancy centre of the University of Science and Technolgy.

(The Ghanaian Business Promotion (Act 334), 1970), emphasized that the Bank of Ghana in 1969 instituted the Credit guarantee Scheme after consultation with the various financial institutions. The major objectives of the scheme is to offer financial institutions in Ghana adequate protection against any possible losses in respect of loans and advances granted to small scale borrowers especially in priority sectors of agriculture, mining, manufacturing , extractive industry, road transport and service industries.

It further emphasized that, in 1975 the Ghana Enterprise Development Commission was established by the National Redemption Council Decree (NRCD) 330 as an improvement and extension of an earlier act.

To (Asumang, 1986), the commission has as its objective to provide financial and technical assistance to newly established enterprises in the small scale businesses. The commission as he stated was also set up to help Ghanaian managers who took over alien businesses as a result of investment and economic policies of the then government. The commission as put in, administered the small business credit scheme and extended credit to priority areas in the manufacturing and the service sectors.

To (Boapeah, 1994), a critical examination however, indicates that there has been little or no coordination among the agencies. The situation therefore necessitated the establishment of National Board for Small-scale Industries (NBSSI) in 1981 to see to the coordination of the effects of all the agencies concerned in one way or the other for the purposes helping in the development of capacity building through seminars and courses in addition to offer of credit facilities to such industries.

The NBSSI presently is the apex body which advises and assists the Ministry of Trade and Industry on the formulation, development and implementation of policies and programmes for the accelerated growth and development of small scale businesses in the country.

(Ninsin, 1991) said, in 1989 NBSSI established a revolving fund valued at 80 million to assist small-scale businesses to procure needed raw materials.

Also (Boapeah, 1994) said under the Programme of Action to Mitigate the Social Coast of Adjustment and Development (PAMSCAD), the government also instituted a credit scheme to assist enterprises in the small-scale sector. (Bekoe 1996), also stated that in 1996, the government had through the Business Assistance Fund established another credit scheme to boost income generating activities of the small, micro and medium sector enterprises.

2.6.4. The role of Government

The government position regarding the informal sector and micro-enterprise development is important as this affects policies that may influence the behaviour of micro-entrepreneurs. Active collaboration, according to (Streans and Otero 1990), involves the establishment of a favourable climate to enable these institutions to continue and expand their work with support but not interfere from government agencies.

According to the government, its vision for the microfinance sector is consistent with the Vison 2020 programme which will ensure a diverse well-integrated financial system that offers adaptive and flexible financial products and services at competitive cost to micro and small-scale enterprises particularly in the informal sector. This will include enabling environment that promotes innovative services on a sustainable basis within the sector.

(The budget statement, 2004) the government contended that it has placed significant emphasis on microfinance as a tool for development. It mentioned among other things the creation of a

National Micro Finance Administration Bureau to concentrate and coordinate efforts towards improving this sector. Technical support from donors such as the World Bank has helped to pave the way towards Ghana's flexible regulatory environment with regards to serving the SMEs sector.

Currently, they said the government is supporting institutional capacity building through training and dissemination of industry best practices with the aim of increasing linkages between the formal and informal financial sector.

They further stated that there are many micro and small businesses operating in Ghana than larger, urban-based business. Yet, despite this undeniable market for financial services, large commercial banks in the country continue to serve primarily larger urban firms, with 60 per cent of Ghana's money supply outside the commercial banking system. Less than 1 per cent of Ghanaian commercial banks total lending portfolio is invested in MSME sector.

(The Budget Statement, 2004) indicated that Ghana's requires a strong financial sector that will mobilize and allocate funds efficiently and also fully integrate into the international financial system. It emphasized that the development of such financial sector is paramount in order to propel Ghana's economy to realize the levels of savings and investments needed to achieve higher rates of growth and employment that will make meaningful impact in the fight against poverty. To realize these objectives, the government has initiated a number of milestones legislations including, the passage of Banking Bill which was intended to provide the framework for effective supervision of the banking system by BOG, and the Payments System Bill which has the objective of modernizing the legal framework and improving the efficiency of the payment system. They also signed an agreement with DANIDA to provide funding for the establishment of commercial courts to facilitate resolution of business conflicts.

It further stated the establishment of Venture Capital Fund to be fully implemented during the course of the year and in order to offer support and improve access of MSMEs to credit.

2.7 PROBLEMS FACING THE MICRO-FINANCE SECTOR

(Quainoo, 1999) identified the various problems facing the micro-finance sector in Ghana. She addressed the problems from the demand and supply side with the demand side, based on target clientele whilst the supply was based on MFIs.

On the demand side emphasis was made that the socio-economic conditions of clients of MFIs, who are mostly the productive poor are faced with several constraints which affect their service absorption capacity. The constraints she said include:

The lack of Capacity building such as technical support/extension service and business development training for the majority of target clientele has resulted in a long gestation period for building capacity within target clientele for service absorption. This affects outreach (that is, numbers of clients that can be reached in a short period of time), expansion of services, impact and the sustainability of micro credit schemes.

There is also non financial service to serve the needs of clients, in the form of health, education, family planning, which affect family income retention and therefore the quality of loan repayment.

Mentioned was also made on the problem of isolation and weather vagaries which affects particularly the Northern and Upper regions of Ghana sometimes resulting in low investment returns and low loan repayment.

Poor infrastructure and road networks she said, affect clients outreach and access to financial services for the poor in isolated communities.

Mention was also made of service withdrawal due to high transaction costs of delivering financial services to isolated rural communities.

On the supply side, problems affecting MFIs, in her opinion are numerous and stem from institutional development and financial factors which include,

a. weak capital base which leaves most MFIs with limited financial resources. This affects the general capitalization level for operations and the availability of funds for lending.

b. also, poor and inappropriate management information systems affect the quality of financial and portfolio reporting. As a result of this situation information for decision-making is usually inadequate.

c. some MFIs do not have appropriate organizational structures, staffing levels and the right calibre of Board members. This affects the quality of board/management relations, policy formulation and decision making.

d. she further remarked inappropriate qualifications and skills of some key MFI personnel for managing credit schemes affect the quality of service delivery and loan portfolio management.

e. they also lack operational policies and manuals to guide and manage their operations.

It is in addressing these problems and constraints that led to the formation of Micro-Finance Institutions Network by MFIs in Ghana. The Network is collaborating with the stakeholders of the micro-finance industry to develop a strategic approach for developing and harmonizing interventions for the sector.

2.8 MEASURING OPERATING AND FINANCIAL PERFORMANCE

Introduction

White et al, (1990) indicated that traditional ratio analysis is primarily designed to meet informational needs of equity investors and creditors. The objective of ratio analysis they said, is the comparative measurement of risk and return facilitating investment and credit decisions.

The informational needs and appropriate technique needed for specific investment and credit decisions are a function of the decision makers' time horizon. They emphasized short-term bank and trade creditors are interested in the immediate liquidity of the firm, whilst longer-term creditors are interested in the long-term asset position, solvency and earning power of the firm.

Their focus therefore is to minimize risk and ensure that resources are available to assure payment of interest and principal obligations.

Equity investors on the other hand are primarily interested in the long-term earnings of the firm. By bearing the residual risk, the equity investor requires a return commensurate to that of their risk. As a residual risk taker, which is being volatile, is difficult to quantify the equity investor's time horizon. This analysis by the equity investor needs to be the most comprehensive, and it subsumes the analysis carried out by other users. Gyasi, (1992) emphasized that general financial statement information should be able to meet the users' information needs in:

a. evaluating the performance of the entity

b. assessing the effectiveness of the entity in achieving objectives established previously by its management members or owners or by society

c. assessing the economic stability and vulnerability of the reporting entity

d. evaluating managerial performance, efficiency and objectives

e. assessing the liquidity of the entity

f. estimating the future prospects of the entity, including its capacity to pay dividends, and other cash outflows

g. attesting to compliance with the company law and other legal obligations

h. ascertaining the ownership and control of the entity

2.8.1 Purposes, uses and types of ratios

White, et al, (1990) emphasized that ratios, in general, involve a process of standardization and are there to standardize reporting methods, financial statements and other relevant variables, allowing for comparisons over time and cross sectional between firms. Also, ratios they say measure a firm's crucial relationships by relating inputs (cost) with outputs (benefits) and facilitate comparisons of these relationships overtime and across firms. White,(ibid) enumerated that; there are four (4) broad categories of analysis that measure such relationships. They are:

a. Activity analysis: This evaluates the level of output generated by the assets employed by the firm.

b. Liquidity analysis: This measures the adequacy of a firm cash resources to meet its near-term cash obligations

c. Long-term debt and solvency analysis examines the firm's capital structure in terms of the mix of its financing sources and the ability of the firm to satisfy its longer-term debt and investment obligations.

d. Profitability analysis measures net income of the firm relative to its revenues and capital.

In measuring these relationships, ratios provide a profile of firms and their management's operating, financial and investment decisions. Thus, an intelligent analysis of the firm's ratios can provide insight into a firm's economic characteristics and competitive strategies.

Micro Rate, (2003) in their performance indicators for Microfinance Institutions presented in the Technical Guide the major industrial micro finance average as follows:

Operating Expenses Ratio	**Operating Expenses/Period Average Gross Portfolio (15%)**
Number of Borrowers per Staff	**Number of Borrowers / Credit Staff (250)**
Portfolio at Risk	Outstanding Balance on Arrears Over 30 Days

	plus Restructured Loans/ Total Outstanding Gross Portfolio (5%)
Financial Expenses Ratio	Interest and Fee Expenses/ Period Average Gross Portfolio (10%)
Liquidity Ratio	Cash and Bank Accounts plus Readily Marketable Investment/ Current Assets (15%)
Debt/Equity	Total Liabilities/ Total Equity (2 times)
Return on Equity	Net profit After Tax/ Net Worth (10%)
Return on Assets	Net Profit after tax/ Total Assets (20%)
Equity Multiplier	Total Assets/Total Equity (1 cent equivalent to C 94)
Current Ratio	Current Assets/Current Liabilities (200% or 2:1)
Assets Utilization	Interest Income/Total Assets (15%)
Return on Earning Assets	Net Profit After Tax (Investment plus Advances) (2%)
Gross Profit Margin	Profit Before Tax/Operating Income (15%)
Net Profit Margin	Net Profit After Tax/Interest Income (10%)

Return on Current Assets	Net Profit/ Current Assets (5%)
Return on Fixed Assets	**Net Profit/ Fixed Assets (2%)**
Return on Capital Employed	Net Profit/Average total equity (20%)
Debt to Assets	**Total liabilities/ Total Assets (75%)**
Interest Cover	Profit before Interest & Tax / Interest Paid (1.5 times)
Total Assets Turnover	**Total Interest Income /Average Assets (0.5 times)**
Fixed Assets Turnover	Total Interest income/Average Fixed Assets (3.5 times)
Earnings Per share	**Net Profit/ No. of shares (20%)**

2.8.2 Standards of comparison

Gyasi, (1992) explained that, ratios on its own is of little value to the analyst. The correct use of ratio analysis involves comparison. It should be compared with a standard in order to determine a favourable or unfavourable situation. The standards of the comparison normally used are:

a. ratios obtained from the past financial statement of the same organization

b. ratios calculated from projected financial statements of the same organization

c. ratios of some selected firms in the same industry, the financial statement of which must have been prepared based upon similar accounting policies.

d. industrial average ratios of the industry to which the firm belong.

2.8.3 Limitations of ratio analysis

Brigham et al. (1999) and Pandey (2004) writes that ratios provide useful insight into a company's operation and financial health. They, however, warn that ratios have to be used with intelligence and good judgment. This is because ratios have the following limitations.

1. It is difficult to find a proper basis of comparison between companies.
2. Company differences make it difficult to make comparison.
3. Different accounting practices can distort comparisons.
4. Inflation may distort a firm's balance sheet causing reported values to be substantially different from true "values."
5. The differences in the definitions of items in the balance sheet and the Profit and loss statement makes the interpretation of ratios difficult.

In the light of these factors enumerated as usefulness and limitations, CGAP, (1998), Brigham et al, (ibid) and Pandey (ibid) proposes the use of trend analysis and benchmarking or industrial average standards in assessing a firm's performance. Whiles benchmarking facilitates comparison, trend analysis reveal whether the firm's ratios are improving or deteriorating over time.

CHAPTER 3

METHODOLOGY AND COMPANY PROFILE

METHODOLOGY

3.1 Scope

This study involves the appraisal of the financial evaluation of First Allied Savings & Loans Limited (FASL) over the past eight years, since its inception to date, its compliance with regulation as regards as a micro financial institution; and its performance over the period as regards operational performance, asset quality, leverage and efficiency.

3.2 Data Sources

Data for the study will be drawn from primary and secondary sources. The primary sources will be from observations of management and shareholders of the bank. The secondary sources will be the audited financial statements of First Allied Savings & Loans Limited (FASL) for the years 2001 to 2008. Since this study is meant to be for a eight year period, projected financial statements will be used as a proxy for audited financial statements for the year 2008. The institution's internal loan classification and Bank of Ghana annual on-site inspection reports on the same will also be used to assess the impact of credit impairment on profitability.

3.3 Methods of Data Analysis

Univariate models or financial ratios will be used to assess the banks performance in terms of profitability, liquidity, efficiency and the management of credit risk, through a trend analysis over eight years. We shall through this, find out if there has been steady growth over the years since the inception of the institution's to date.

This analysis will also reveal the extent to which the banks credit portfolio impacts on its profitability through "provisioning"

3.4 Limitation

This study is meant to cover the operating life of First Allied Savings & Loans Limited (FASL) and involves an analysis of the audited financial statements of the bank for that period. It has been realised however that the bank does not have audited financial statements for 2008 since it operated for only two months in that year. We shall therefore base our analysis on the financial statements for the eight year period 2001 to 2008. Since the audited financial statements for 2008 will only be ready in the later part of March 2009, we shall rely on the banks management accounts for 2008 for our study.

- Performance Assessment

This is the complex process of evaluating an Institution's performance in terms of the environment, internal operations and external activities. This study concerns itself with the assessment of the internal performance of a bank by analyzing accounting statements through the use of financial ratios. The key ratios used by bank analysts to evaluate different dimensions of financial performance in banks include profitability ratios, efficiency ratios, liquidity ratios and asset quality or lending risk ratios.

i. Profitability Ratios:

ii. These ratios measure the operating efficiency of a firm in terms of the four widely used measures of profitability in banks which are return on assets, return on equity, profit margin and the net interest margin.

iii. Efficiency Ratios

These ratios indicate how effective a bank is in utilizing its human or other resources. Some of these ratios are the operating efficiency ratio, the non-interest expense ratio and interest expense ratio.

iii. Liquidity Ratios

Liquidity ratios measure the ability of a firm to meet is current obligations. This obligation finds more prominence in the business of banking where the inability to meet demand deposits at any time can result in a run on the firm, leading to its failure.

- Loan Charge Offs/Provisions

A bank is expected to charge a percentage of its advances to its earnings. The higher the degree of impairment, the greater the amount charged to the bank's earnings. It can therefore be said that impaired advances have a direct negative impact on the profitability of an Institution.

3.5 HISTORY AND BACKGROUND

First Allied Savings & Loans was incorporated as a private limited liability company on 24th May 1995 under the Ghana Companies Code (Act 179) 1963 to operate as a Non-Bank Financial Institution (NBFI). The Institution was granted an operating license by the Bank of Ghana under the Non-Bank Financial Institutions Law (PNDCL 328) of 1993 on March 27, 1996 to accept deposits from the public and provide credit services to businesses and consumers. It is owned by three (3) shareholders.

Official business commenced on September 25, 1996 after the company had received a certificate to commence business on June 5, 1996. FASL's authorized business is to carry on savings and loan services.

The Institution was established purposely to engage in micro-financing activities through the mobilization of savings from the retail public – mainly households and small business enterprises – and the provision of credit largely to its target group (micro and small business financing). The target group oriented credits are usually linked to savings.

The Institution has been reaching out to its customers through its branches, agency and a "distance banking" concept. The Institution has been able to position itself as the leader in the savings and loans business through the provision of quality products and the delivery of efficient services to its targeted customers.

The Institution's Mission

FASL commenced operations with the mission *"to offer convenient access to efficient, innovative and responsive financial services to the micro and small scale entrepreneur on a sustainable basis for the mutual benefit of all stakeholders"*.

The Institution's Vision

The vision of FASL is "*to create an excellent institution and be a leader in the provision of quality financial services to the micro and small enterprise sector in Ghana"*.

3.6 PROFILE OF SHAREHOLDINGS

FASL is owned by four (3) shareholders who in total hold Two Hundred and Five Million, Four Hundred Thousand (205,400,000) ordinary shares out of authorized ordinary shares of Five Hundred Million (500,000,000).

The Institution operates from three branches located in Kumasi, the second largest city in Ghana. There is also a Distance Banking Department, which currently serves twenty-two (22) villages around Kumasi. It has eight (8) member BOD comprising four (4) Executive Directors and four (4) Non-Executive Directors. The four (3) Executive Directors form management. The Executive Directors who form management are classified as Managing Director (MD), Finance and Administrative Director, Operations Director and Director for Planning, Monitoring and Marketing.

Nana Yaw Oduro------------------------------ 92 %

Philip Yaw Amakye---------------------------- 5%

Robert Kwadwo Asante------------------------ 3%

3.7THE INSTITUTIONS GOVERNANCE AND MANAGEMENT OPERATIONS

3.7.1*Organizational Structure*

FASL employs an effective organizational structure with clearly defined lines of authority from the top management level downwards. On top of the hierarchy is the BOD followed by the MD but not in line is the Secretary and the Inspection.

3.7.2 *Board of Directors*

FASL is governed by an eight member BOD composed of four (4) Non-Executive Directors and four (4) Executive Directors. The BOD is responsible for the formulation of the Institution's overall strategy and the monitoring of operational activities of the management team. The BOD is made up of professionals and renowned businessmen who have accomplished significantly in their various fields of endeavour.

3.7.3 *Management Team*

The day to day management of the Institution is carried out by a team of competent management of staff headed by the MD. The MD is assisted by Executive Directors, who supervise the various departments. In addition, there is an Inspection department responsible for reviewing the effectiveness and adequacy of the Institution operations, and also a Company's Secretary for secretarial and administrative matters. The remaining Executives who together with the MD forming the management team are the Executive Director (Finance & Administration), the Executive Director (Operations) and the Executive Director (Planning, Monitoring & Marketing).

The Executive Director (Finance & Administration) supervises treasury, the accounts and the administration departments.

The Executive Director (Operations) is responsible for the effective and efficient running of the branch operations, the distance banking department and the credits department.

The Executive Director (Planning, Monitoring & Marketing) supervises the corporate planning, information systems and marketing departments.

3.8 KEY OPERATION

FASL presently operates from four branch offices located in Kumasi, the second largest city in Ghana. The Institution also operates distance banking, which serves approximately twenty two villages around Kumasi, the Ashanti regional capital. A new branch was opened on 23rd February, 2007 at Techiman in the Brong Ahafo region. Another branch expected to be opened in Accra, Ghana's capital before the end of the first quarter of this year.

Through its branches and distance banking concept, FASL has been accepting deposits from the public and granting advances to its customers, non- customers and travellers. The institution has focused on individuals, micro and small scale enterprises, which have not been prioritized by the traditional commercial banks.

The microfinance market demands specialized and unique financial skills and products. FASL has been able to succeed in this area because of its exercise of such specialized skills and its ability to develop customized products and services to meet the needs of its customers.

FASL strategic locations (i.e. Adum and Central Market- leading commercial centers in Kumasi) and focus have also enabled it to operate successfully over the years. The Institution has thus established itself as a veritable potential leader in the savings and loans business. The Institution's products have been categorized into deposits-taking and advance granting.

3.9 KEY FINANCIAL INDICATORS –End of year 2006

Customer base -96,913

Deposit base - $14,945,825 (USD)

Loan size - $10,843,964 (USD)

The Institution has nine (9) departments supervised by three (3) Executive Directors. Each of the nine (9) departments is either headed by a Departmental Head or directly under the respective Executive Director.

The departments are *the branch operations, the inspection, the administration, accounts, the distance banking, the credits, planning and information systems, marketing and the treasury department.*

3.10 THE INSTITUTION PRODUCTS AND ACTIVITIES

The Institution's products have been categorized into deposit-taking and advance granting.

The main deposit-taking products are Current accounts, Savings accounts, Fixed Deposit accounts and Susu accounts.

3.10.1 Deposit-taking Products

Current (checking) account – this is offered to individuals and micro/small businesses that require unlimited access to their funds. The initial amount required to open an account is 100,000 cedis.

Savings deposit account – this targets individuals and businesses that want to put aside some funds for the rainy day or wish to put diversify their investments. Interest is paid quarterly on clients' savings accounts. The initial amount required to open an account is 50,000 cedis. Clients can withdraw from their savings accounts once every seven (7) days. Penalty is charged on customer who make than one withdrawal within seven (7) days.

Fixed deposit account – this is a fixed term depository product offered for one (1) month, three (3) months, six (6) months and twelve (12) months or more. A customer can operate this product with a minimum of one hundred thousand cedis (¢100,000).

Susu savings – the susu system is an informal grassroots savings movement that has been widely practiced in Ghana for over fifty (50) years. The susu collector is one man-operator who visits his savings clients in their shops, workplaces, or homes on daily basis to collect a predetermined amount of money agreed with the saver. The collection cycle has traditionally been one month, after which period the collector returns the saver's deposit to him/her, less a commission. FASL introduced its susu savings scheme in 1997. The FASL susu scheme, which is essentially an adaptation of the traditional susu, is offered in three varieties namely Ordinary susu, Golden susu, and Golden-plus susu

Ordinary Susu: Participants in the ordinary susu contribute a self-determined amount ranging between ¢5,000 and ¢15,000 daily for thirteen (13) weeks. At the end of the cycle, a participant's entire contribution is refunded to him/her plus a loan amount equivalent to half of his/her total contribution on condition that customer accepts to continue the scheme for another cycle. The loan is repayable over a period of thirteen weeks.

Golden Susu: The cycle of contribution is the same as Ordinary susu but daily contribution ranges between ¢16,000 and ¢50,000.At the end of the cycle, 50% or half of the participant's contribution is retained by FASL and invested in a savings account on her behalf and other paid to her additionally to a loan equal to 100% of her contributions on her condition that the participant accepts to continue the scheme for another cycle. The loan is payable over a period of between 13 and 20 weeks.

Golden-Plus Susu: this is open to any participant in the Golden susu scheme who has completed two consecutive cycles, and further undertakes to increase her contribution to ¢51,000 o more. At the end of the third cycle the participant shall enjoy all the benefits accruing under the Golden Susu scheme and shall additionally be entitled to a commercial loan to support her business.

3.10.2 Advance Granting Products

Individual Loans: Individuals, enterprises, and companies that have had an account (current/checking) relationship with FASL for a minimum period of six (6) months can apply for a loan for working capital purposes or for the purchase of fixed assets. Loans are granted for terms of up to twelve (12) months.

Consumer Credit Loans: This product is in collaboration with Kumasi Home Stores. FASL finances the purchase of consumer durables from Kumasi Home Stores after the customer has paid an initial deposit of 35% of the cost of the item.

Travel Credit: This product is short-term and is meant for clients who need funds to purchase tickets to travel abroad. They are expected to pay back the loan over a 3-month period.

Solidarity Group Loans: This product is designed to assist those in the informal sector whose skills and services have the potential to affect positively, the economic development of their communities. It is also aimed at inculcating the banking culture among the un-banked poor with productive skills. The nucleus of the product is the existence of a duly registered Society, Club, or Association whose members have a common trade or vocation. Members of qualifying associations are required to open deposit accounts into which payment is made. For funding purposes, members are organized into groups of between 5 and 10. Group members as well as the association's executive are held jointly and severally liable for the repayment of any loan granted to the group. Members who are granted loan facilities are required to maintain compulsory savings accounts with FASL.

Allied Mpontu Loan Scheme: This is a hybrid product that combines attributes of susu and solidarity group loans. The loan is repayable over a period of 6 months with repayments made fortnightly. The susu contributions are made on group or individual basis daily or weekly. After completion of the cycle, customers shall qualify for an FASL susu loan provided they have not defaulted in the repayment of their Mpontu loans.

CHAPTER 4

DATA ANALYSIS AND DISCUSSION

4.0 INTRODUCTION

This chapter first of all examines financial performance in nominal terms. This is followed by corresponding analysis in real terms.

4.1 FINANCIAL PERFORMANCE OF FASL – 2001- 2008

The tables below show the historical performance of FASL from 2001 -2008

Extract from Profit and Loss Accounts (in GH¢' hundreds)

Table 4.1

YEAR	2001	2002	2003	2004	2005	2006	2007	2008
Interest income	1,144	2,045	3,448	6,550	7,386	12,383	15,093	20,384
Interest Expense	415	890	863	2,061	1,844	2,049	1,849	2,010
Net Interest Income	729	1,155	2,585	4,489	5,542	10, 334	13,244	18,374
Commission and fees	249	283	385	519	802	1,830	2,824	4,725
Total Income	978	1,438	2,970	5,008	6,344	12,164	16,068	23,099
Provision for Loan Loss	22	87	128	109	300	2,099	369	738
Interest on Loan Capital	-	-	-	-	12	12	103	181
Operating Expenses	860	1,324	2,413	4,437	5,067	8,497	13,263	19,537

Net Operating Income	-	-	-	462	965	1,556	2,333	2,643
Profit/Loss on Disposal Fixed Assets	-	-	-	-	5	8	-	16
Other Income	-	-	-	8	9	83	331	141
Profit before Tax	96	27	434	470	969	1,631	2,664	2,800
Taxation	22	13	162	189	295	681	382	364
National Reconstruction Levy	-	-	-	-	26	41	66	42
Net Profit	74	14	272	281	648	909	2,216	2,394

INCOME SURPLUS ACCOUNT 2001-2008

Table 4.2

YEAR	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Balance b/f	-10	28	31	167	308	554	203	695
Transfer to stated Capital	0	0	0	0	0	-395	0	1,831
Proposed Dividend	0	0	0	0	0	-411	-616	0
Prior-Year Adjustment	0	-3	0	0	-78	0	0	0
Transfer to mandatory Reserve	37	7	136	141	324	455	1,108	1,197
TOTAL	27	32	167	308	554	203	695	61

BALANCE SHEET – 2001 -2008

Table 4.3

YEAR	2001	2002	2003	2004	2005	2006	2007	2008
Cash & Short-term Funds	2,090	1,424	1,317	5,155	8,405	11,346	17,305	15,178
Investment	1,510	2,246	5,906	12,368	19,610	26,061	31,294	21,569
Advances	2,323	4,788	7,316	9,966	14,412	18,114	27,929	59,900
Other Asset Accounts	158	251	346	553	967	1,265	2,430	3,839
Sub total	**6,081**	**8,709**	**14,885**	**28,042**	**43,394**	**56,786**	**78,958**	**100,486**
Fixed Assets	574	630	1,022	1,449	1,582	4,227	7,616	9,526
Deferred Expenditure	-	-	-	-	-	-	-	777
Total	6,655	9,339	15,907	29,491	44,976	61,013	86,574	110,789
Overdraft	0	59	0	0	0	5	0	2,240
Deposit& current Account	5,896	8,520	13,775	25,846	39,657	54,422	73,580	92,923
Other Payables& Accounts	48	45	70	185	301	289	418	763
Taxation	19	-7	95	-8	31	279	-268	-538
Proposed Dividend	0	0	0	0	0	411	616	-
Managed Funds	0	0	0	1,671	2,607	203	463	29

Total	**5,963**	**8,617**	**13,940**	**27,694**	**42,596**	**55,609**	**74,809**	**95,417**
Short term loan	-	-	-	-	-	-	-	250
Long term loan	0	0	505	-	283	399	-	-
Stated Capital	627	627	627	627	627	3,702	8,862	15,000
Income Surplus	28	31	167	308	554	203	695	61
Mandatory Reserve	37	44	180	321	645	1,100	2,208	61
Loan Capital	0	0	488	542	271	0	-	-
Sub –Total	**692**	**702**	**1,462**	**1798**	**2,380**	**5,404**	**11,765**	**15,372**
Total	**6,655**	**9,319**	**15,907**	**29,492**	**44,976**	**61,013**	**86,574**	**110,789**

4.2 PERFORMANCE ANALYSIS OF FASL

First Allied Savings and Loans ltd since its operation and the period under investigation rendered impressive financial performance. In 2001, the company recorded an interest income of GH¢110,000 which increased to GH¢2.03million indicating a growth of 1,745.45%.

Interest expenses witnessed a fluctuating trend from 2001 -2008. The year 2001 recorded GH¢41,500, 2002 saw an increase to GH¢89,000. It then declined to GH¢86,300 in 2003. The figure for 2004 was GH¢206,100 declining to GH¢ 184,400 in 2005, but rising again to GH¢204,900 in 2006. In the year 2007, it declined again to GH¢184,900. The year 2008 recorded an increase which was GH¢201,000. The resultant interest margins were 63.72% in 2001, 56.48% in 2002, 74.97% in 2003, 68.53% in 2004, 75.00% in 2005, 83.45% in 2006, 87.75% in 2007 and 90.14% in 2008.

The Institution's net profit also declined from a net profit of GH¢ 7,400 in 2001 to GH¢ 1,400 in 2002 due to investment made in the establishment of a new branch at Asafo. Net profit bounced back in 2003 to register GH¢27,200. The Institution's net profit also improved from GH¢28,100 in 2004 to GH¢64,800 in 2005. The impressive growth trend continued in 2006 with GH¢90,900 increasing to GH¢221,600 in 2007 and then GH¢239,400 in 2008.

The Institution's total deposit at end of 2001 was GH¢ 590,000 which increased to GH¢ 850,000 in 2002. Total deposits as at the end of 2003 were **GH¢1.4million**, which nearly doubled to **GH¢ 2.6million** in 2004. The year 2005 recorded an amount of GH¢ 4.0 million.

The total deposits at the end of 2006 were GH¢ 5.4 million which impressively increased to GH¢ 7.4 million in 2007 and then to GH¢ 9.3 million in 2008

The amount of investment as at end of 2001 was **GH¢ 150,000** and this was increased to **GH¢ 270,000** in 2002 and then to **GH¢590,000** in 2003. The Investment amount at the end of 2004 was GH¢ 1.2 million and this increased to GH¢ 2.0 million in 2005 then to GH¢2.6 million in 2006. It also increased to GH¢3.1 million in 2007, but declined to GH¢ 2.2 million in 2008.

Advances granted to clients stood at **GH¢ 230,000** in 2001, this increased to **GH¢ 480,000** in 2001 and **GH¢730,000** in 2003. Advances granted customers totalled GH¢ 1.0 million in 2004 increasing to GH¢ 1.4 million in 2005. This amount also increased to GH¢ 1.8 million in 2006, GH¢ 2.8 million in 2007 and more than doubling to GH¢6.0 million in 2008.

Shareholders' funds improved from **GH¢ 69,200** in 2001 to **GH¢ 70,300** in 2002. It further went up to **GH¢ 97,400** in 2003. Shareholders' funds saw an increase from GH¢ 130,000 in 2004 to GH¢ 140,000 in 2005. The amount also rose from GH¢ 500,000 in 2006 to GH¢ 1.2 million in 2007 and then to GH¢ 1.5 million in 2008.

4.3 RATIOS AND GRAPHICAL OF FASL'S PERFORMANCE

4.3.1 PROFITABILITY RATIOS

Table 4.4

YEAR	2001	2002	2003	2004	2005	2006	2007	2008	AVERAGE
GROSS PROFIT MARGIN	0.07	0.01	0.11	0.07	0.12	0.11	0.15	0.11	0.09375
NET PROFIT MARGIN	0.05	0.01	0.07	0.04	0.08	0.06	0.12	0.1	0.06625
RETURN ON ASSETS	0.01	0	0.02	0.01	0.01	0.01	0.03	0.02	0.01375
RETURN ON CURRENT ASSETS	0.01	0	0.02	0.01	0.01	0.02	0.03	0.02	0.015
RETURN ON FIXED ASSETS	0.13	0.02	0.27	0.19	0.41	0.22	0.29	0.25	0.2225
RETURN ON EQUITY	0.11	0.02	0.28	0.22	0.35	0.18	0.19	0.16	0.18875
RETURN ON CAPITAL EMPLOYED	0.14	0.04	0.22	0.04	0.09	0.13	0.32	0.34	0.165

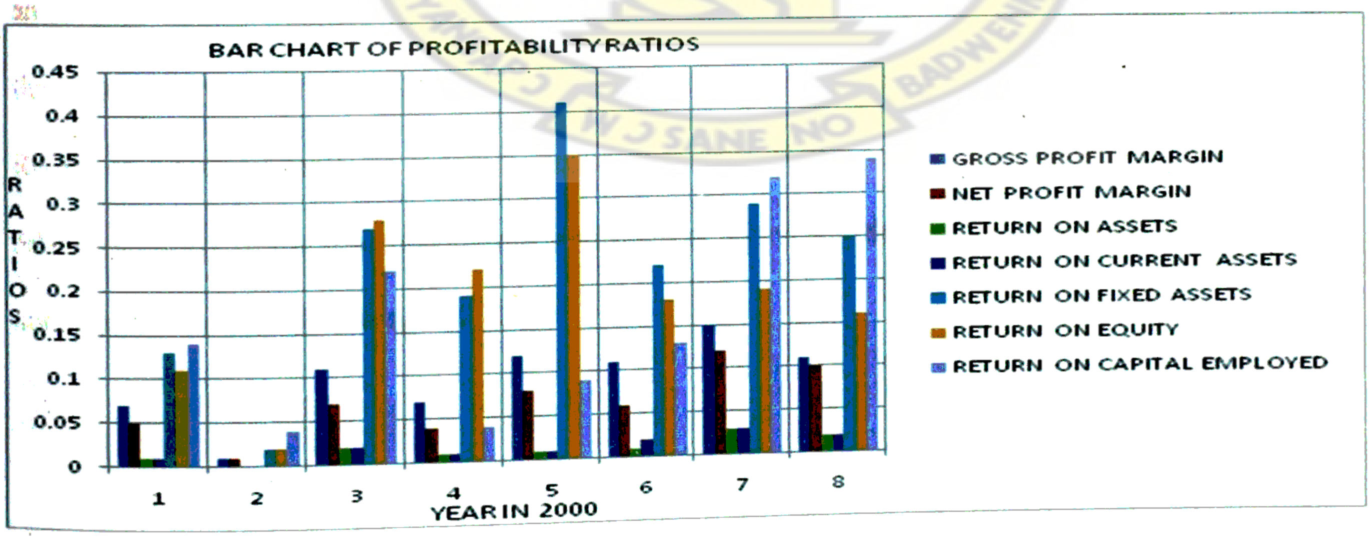


Fig 4.1

Profitability analysis

Profitability is the net result of a number of policies and decisions. The ratios provide a useful clue as to the effectiveness of a firm's operations. The ratios show the combined effects of liquidity, asset management and debt management on operating results (Brigham et al 1999).

When performance is measured in percentage terms the gross profit and net profit margin figures witnessed a fluctuating trend. The gross profit and net profit margins had average of 9.3 % and 6.6% respectively. This trend needs to be watched carefully and appropriate measures should be adopted to improve the bank's performance.

Returns on Assets, Current assets, Fixed Assets were fairly stable, but mixed. Return of Assets depicted on average of 1.4 %, Current assets 1.5 % and fixed assets 22.25 %.

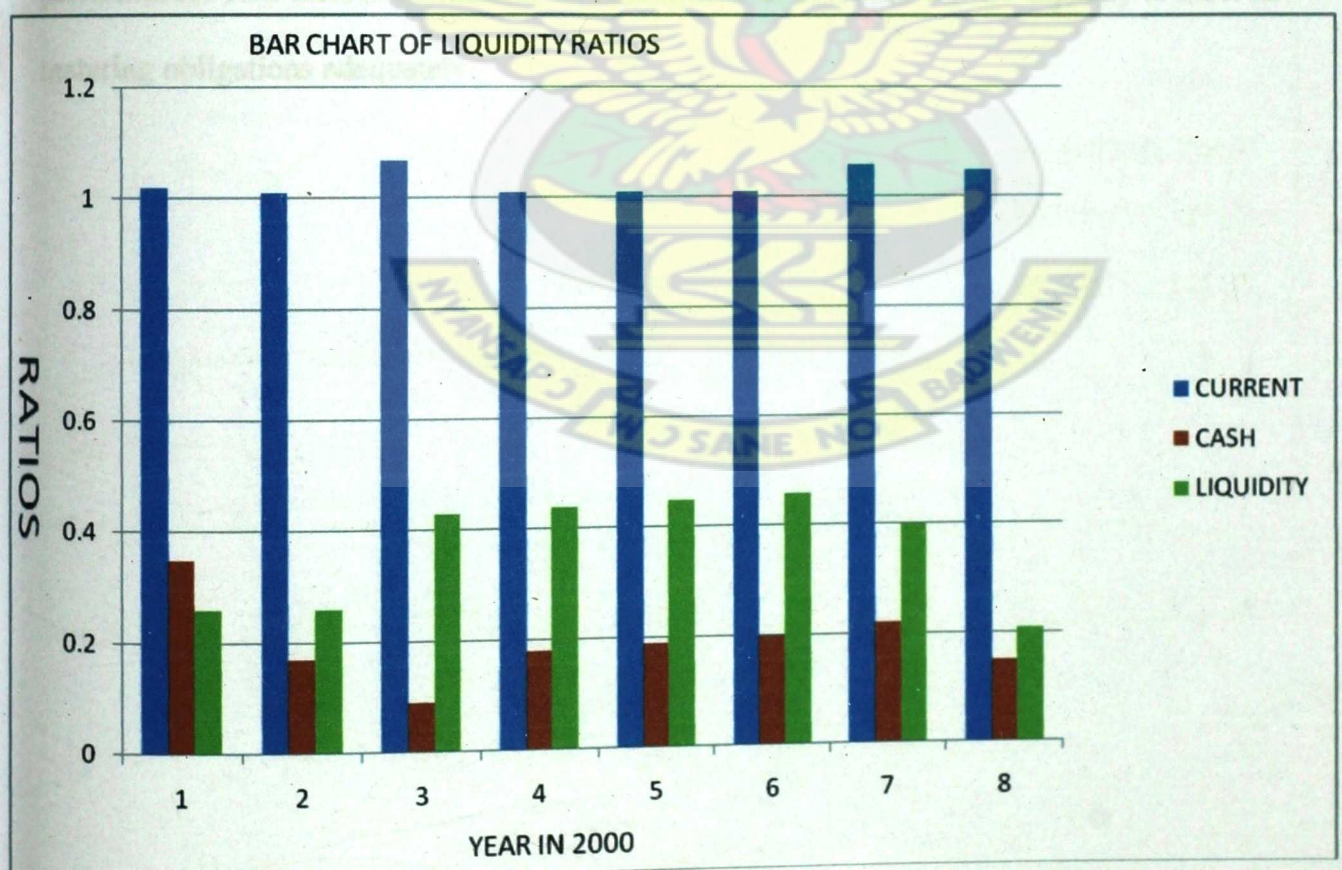
Return on Equity depicted an average of 18.86% whiles the Return on Capital Employed showed an average of 16.5 %. Though Returns on Equity for the period 2004 to 2006 were higher than the returns for period 2006-2008, it compares favourably with the Industrial Average of 10%. Return on Capital Employed showed consistent trend over the period. This might be due to the relative stability of the macroeconomic environment. However, the average return of 16.5 % did not meet the Industrial Average of 22%.

4.3.2LIQUIDITY RATIOS

Table 4.5

YEAR	2001	2002	2003	2004	2005	2006	2007	2008	AVERAGE
CURRENT	1.02	1.01	1.07	1.01	1.01	1.01	1.06	1.05	1.03
CASH	0.35	0.17	0.09	0.18	0.19	0.2	0.22	0.15	0.19375
LIQUIDITY	0.26	0.26	0.43	0.44	0.45	0.46	0.4	0.21	0.36375

Fig 4.2



Liquidity Ratios

These ratios measure the ability of the company to meet maturing obligations. These ratios show the relationship of a firm's current assets to its current liability, and thus its ability to meet maturing debts (Brigham et. al. 1999).

Thus, a company is assumed to be able to meet its maturing obligation if it has current assets that are adequate to support the existing level of current liabilities.

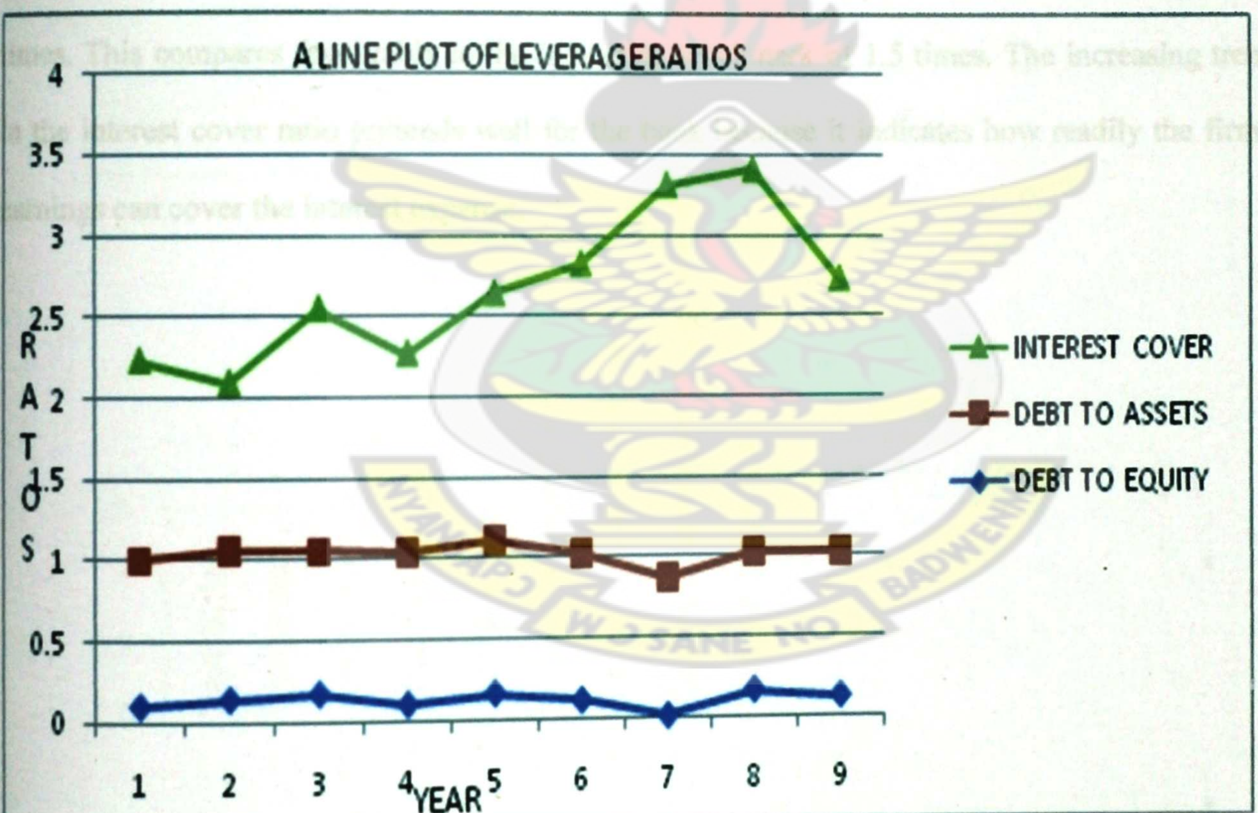
The liquidity graph captured three types of ratios which are current, cash and liquidity. These ratios depicted mixed performance over the period. The Current, Cash and Liquidity showed an average of 103%, 19.37% and 36.37 % respectively. The average liquidity ratio of 36.37% companies favourably with the Industrial average of 18% an indication of higher average performance. This therefore measures that the firm in its existence has the capacity to meet its maturing obligations adequately.

4.3.3 LEVERAGE RATIOS

Table 4.6

YEAR	2001	2002	2003	2004	2005	2006	2007	2008	AVERAGE
DEBT TO EQUITY	0.1	0.14	0.17	0.1	0.16	0.11	0.01	0.16	0.121428571
DEBT TO ASSETS	0.9	0.92	0.88	0.94	0.95	0.91	0.86	0.86	0.902857143
INTEREST COVER	1.23	1.03	1.5	1.23	1.53	1.8	2.44	2.39	1.702857143

Fig 4.3



Leverage Ratios

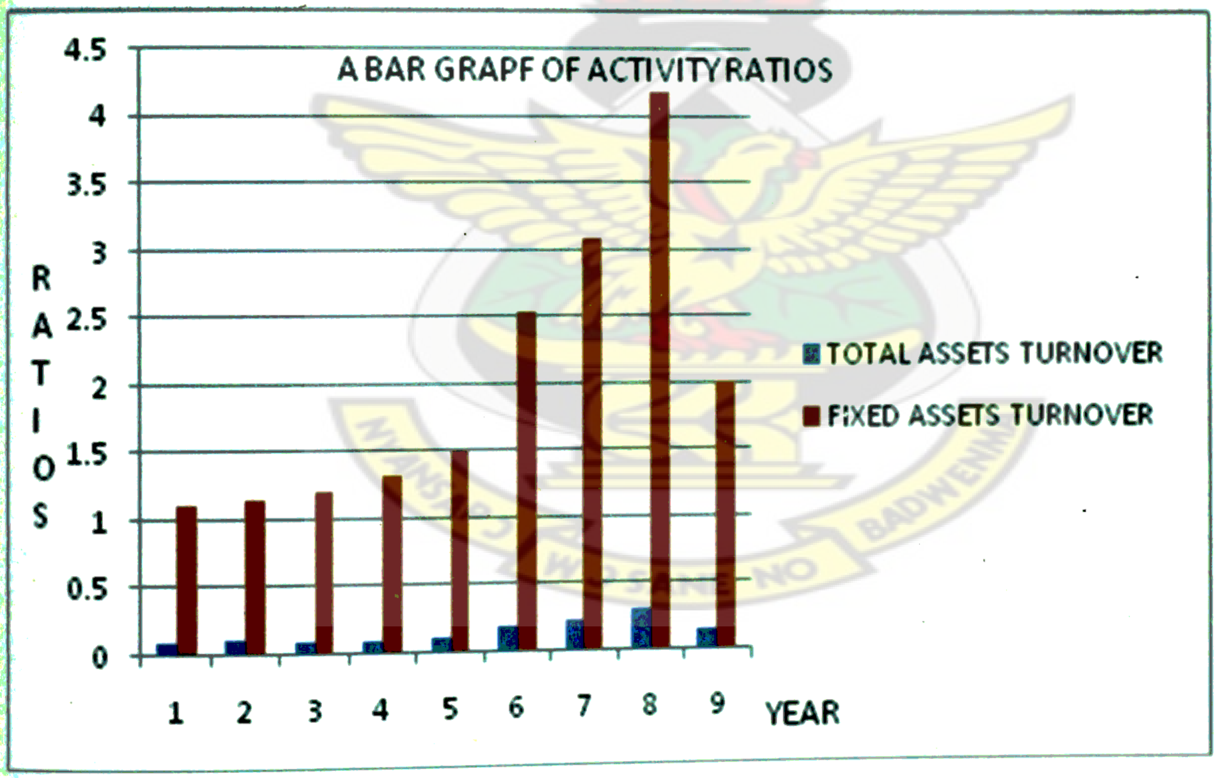
Financial leverage reflects the amount of debt used in the capital structure of the firm. It measures debt in relation to assets, and equity and determines how readily equity multiplier in relation to capital employed. These ratios measure the proportion of outsiders' capital in financing the firm's assets. Debt to Equity ratios fluctuated during the period under investigation averaging 0.12 which falls below the Industrial average of 2 times. However, the Debt to Assets ratio of an average of 90.29 % compared favourably to the Industrial Average of 75%, through it declined over the period. Interest cover indicates the extent to which a firm's earnings before interest and tax cover interest paid. This ratio depicts an increasing trend with an average of 1.7 times. This compares favourably to the Industrial benchmark of 1.5 times. The increasing trend in the interest cover ratio portends well for the bank because it indicates how readily the firm's earnings can cover the interest expense.

4.3.4 ACTIVITY RATIOS

Table 4.7

YEAR	2001	2002	2003	2004	2005	2006	2007	2008	AVERAGE
TOTAL ASSETS TURNOVER	0.1	0.11	0.1	0.1	0.11	0.19	0.23	0.31	0.15625
FIXED ASSETS TURNOVER	1.11	1.15	1.21	1.34	1.51	2.54	3.09	4.18	2.01625

Fig 4.4



Activity Ratios

These ratios measure the speed at which the firm is turning over account receivables, inventory and long-term assets. These ratios are also called turnover ratios because they indicate the speed with which the firm manages, utilizes and turnover over account receivables, inventory and long-term assets. (Pandey, 2004). The Total Assets and Fixed Assets Turnover figures are 0.15 and 2.01 times.

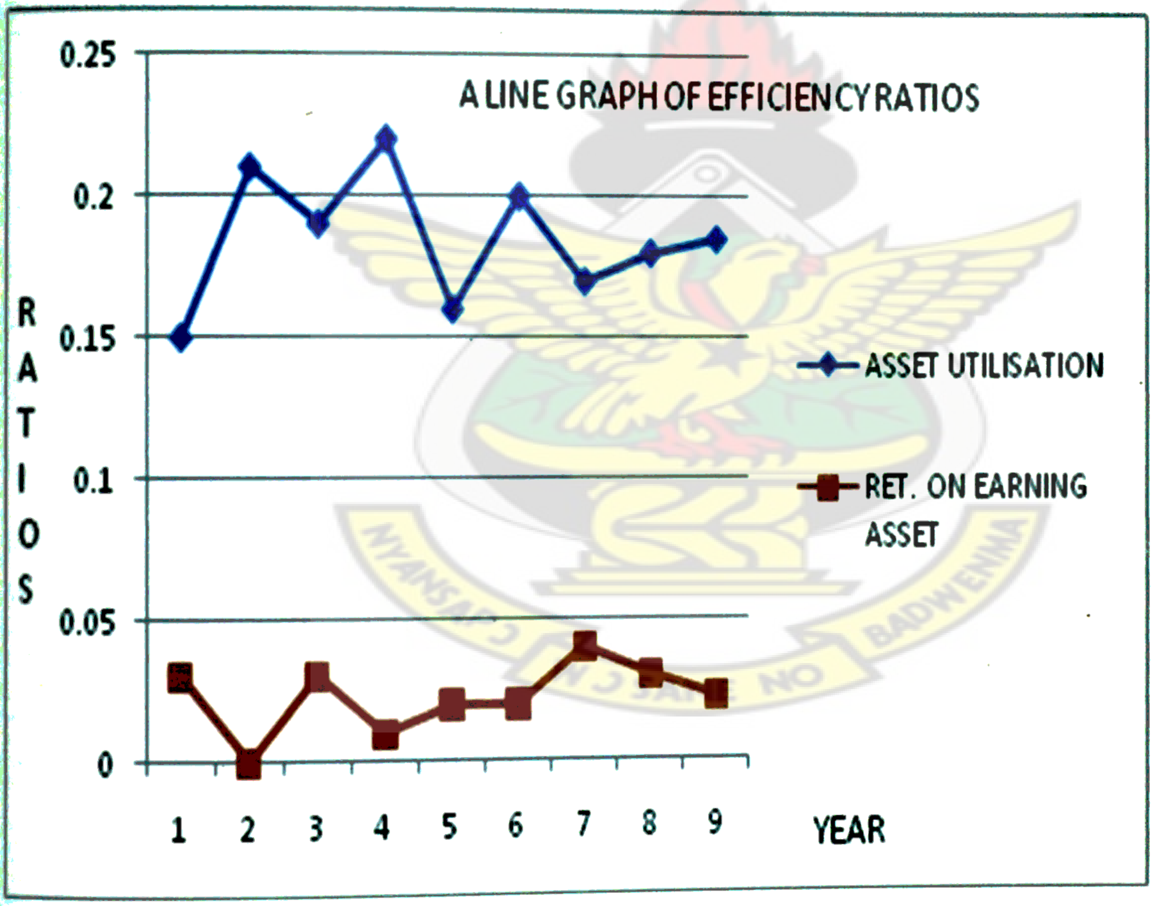
These ratios indicate an improving trend over the period under investigation. This might be due to the relative stability in the macro-economic environment and general levels of income

4.3.5 EFFICIENCY RATIOS

Table 4.8

YEAR	2001	2002	2003	2004	2005	2006	2007	2008	AVERAGE
ASSET UTILISATION	0.15	0.21	0.19	0.22	0.16	0.2	0.17	0.18	0.185
RET. ON EARNING ASSET	0.03	0	0.03	0.01	0.02	0.02	0.04	0.03	0.0225

Fig 4.5



Efficiency Ratios

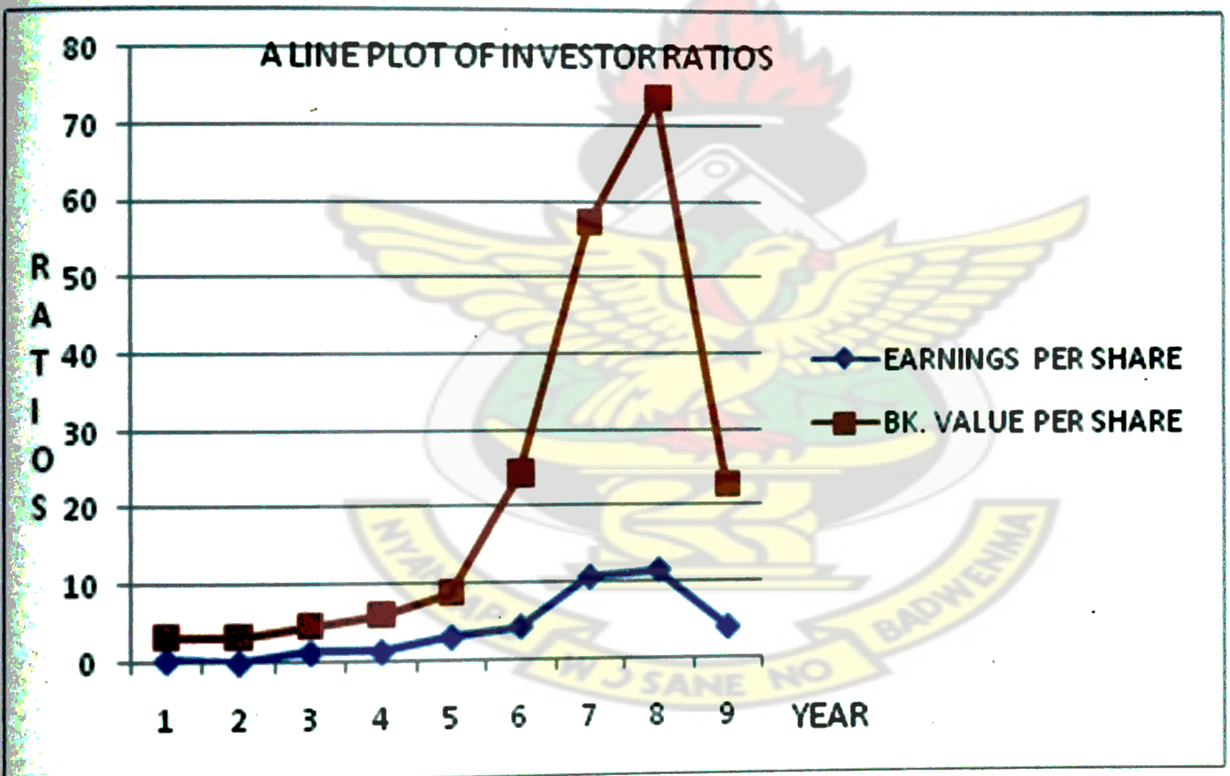
These ratios assess how effectively managers utilize the resources at their disposal. Asset Utilization and Return on Earning Assets ratios were considered under this analysis. Where Asset Utilization returns an average of 18.5 %, Return of Earning Assets showed an average of 2.25 %. Assets Utilization on the average compared favourably with the Industrial Average of 15% and Return on Earning Assets comparing favourably with Industrial average of 2%.

4.3.6 INVESTOR RATIOS

Table 4.9

YEAR	2001	2002	2003	2004	2005	2006	2007	2008	AVERAGE
EARNINGS PER SHARE	0.36	0.07	1.32	1.37	3.15	4.43	10.79	11.66	4.14375
BK. VALUE PER SHARE	3.37	3.42	4.74	6.11	8.89	24.37	57.28	73.63	22.72625

Fig 4.6



Investors Ratios

This measures the spread of the earnings or net profit of the firm over the number of outstanding shares. These ratios measure the value of shareholders over time. The Book Value per Share and Earnings per Share depict an increasing trend with an average of 2,272.63 % and414.37 % respectively. This trend is positive because shareholder value has been increasing, though dividends were paid in only 2006 and 2007.

4.4 GROWTH TREND ANALYSIS

Table 4.10

YEAR	2001	2002	2003	2004	2005	2006	2007	2008	AVERAGE
EARNINGS/TOTAL ASSETS	0.15	0.15	0.19	0.17	0.14	0.2	0.19	0.21	0.175
INVESTMENTS/TOTAL ASSESTS	0.23	0.24	0.37	0.42	0.44	0.43	0.36	0.19	0.335
ADVANCES/DEPOSITS	0.39	0.56	0.53	0.39	0.36	0.33	0.38	0.64	0.4475
FIXED ASSETS/TOTAL ASSETS	0.09	0.07	0.06	0.05	0.04	0.07	0.09	0.09	0.07
FIXED ASSETS/NET WORTH	0.83	0.9	1.05	1.15	0.87	0.84	0.65	0.63	0.865

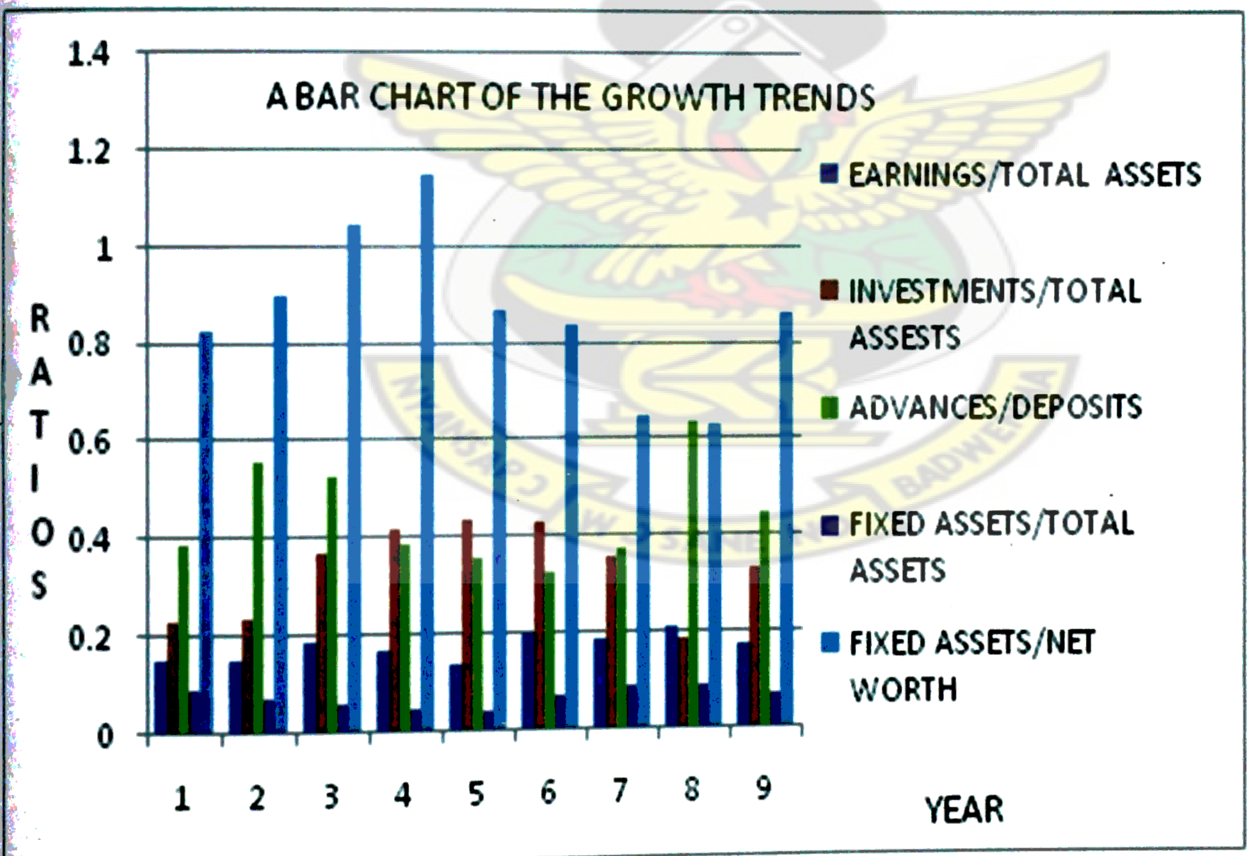


Fig 4.7

owth Trends Analysis

s measures the combined effect of average of the earnings to total assets of 17.5%, estment to total assets of 33.5%, advances to deposits of 44.75%, fixed assets to total assets of and fixed assets to net worth of 86.5% which indicates consistent trend of growth. The wth trend has been encouraging showing improvement in the bank's assets and advances e.

Growth Trends Analysis

This measures the combined effect of average of the earnings to total assets of 17.5%, investment to total assets of 33.5%, advances to deposits of 44.75%, fixed assets to total assets of 7% and fixed assets to net worth of 86.5% which indicates consistent trend of growth. The growth trend has been encouraging showing improvement in the bank's assets and advances base.

4.5 REAL TERMS DATA ANALYSIS OF FASL'S PERFORMANCE

The analysis of the Institution's performance were based on nominal value terms and do not take in account inflationary trends over the period 2001-2008.

In real term analysis, effective interest rate is calculated (CGAP, 1998) as

$$\left(\frac{1 + \text{nominal effective interest rate}}{1 + \text{inflation rate}} - 1 \right)$$

Table 4.11

YEAR	2001	2002	2003	2004	2005	2006	2007	2008
Interest Rate (%)	0.49	0.42	0.45	0.32	0.32	0.32	0.32	0.30
Inflation (%)	0.16	0.14	0.41	0.21	0.15	0.24	0.12	0.15
Real Rate (%)	0.28	0.25	0.03	0.09	0.15	0.06	0.18	0.13

(In hundreds of GH¢)

Table 4.12

YEAR	2001	2002	2003	2004	2005	2006	2007	2008
Interest	1,144	2,045	3,448	6,550	7,386	12,383	15,095	20,384
Real income	320.32	511.25	103.44	589.50	1,107.90	742.98	2,717.10	2,649.92

From the real rate data analysis, interest income in real terms were recorded as **GH¢ 32,500** (2001), **GH¢50,200** (2002), **GH¢ 9,800** (2003), GH¢59,000 (2004) GH¢110,800 (2005), GH¢74,200 (2006) GH¢272,000 (2007) and GH¢265,000 (2008).

These show that the institution's rate of growth from 2004 to 2006 was 35.06% in nominal terms, whereas in real terms the growth rate was 14.99%. Assuming an average inflation rate of 17.4 %, this means that the institution's performance was influenced by inflation.

4.6 DEPOSIT MOBILIZATION TREND ANALYSIS

Table 4.13

YEAR	2001	2002	2003	2004	2005	2006	2007	2008
TOTAL	5,896	8,520	13,774	25,846	39,657	54,422	73,580	92,923
GROWTH (%)	0	45	62	88	53	37	35	26

4.7 DEPOSIT CUSTOMER BASE

Table 4.14

YEAR	2001	2002	2003	2004	2005	2006	2007	2008
TOTAL	14,341	21,818	37,115	51,049	66,420	83,009	86,040	90,000
GROWTH (%)	0	52	70	38	30	25	4	5

Deposit mobilization grew from GH¢589,600 (2001) to GH¢ 9.3 million (2008) in absolute terms. However in percentage terms the growth rate increased from 45 % in 2002 to 88% in 2004.the growth then declined steadily in the subsequent years. The year 2008 registered the lowest growth rate which was 26%.

This is not good news for a micro financial institution and measures should be put in place to halt the decline in growth. The bank had a customer as base of 14,241 (2001) which grew to 90,000 (2008) in absolute terms. . This depicts a tremendous growth for the Institution's customer base. The tables above explain the Institution's deposits trend and customer growth from 2001 to 2008.

4. 8 PORTFOLIO ANALYSIS

Table 4.15

YEAR	2001	2002	2003	2004	2005	2006	2007	2007
No of employees	60	92	108	127	145	155	172	175
No of branches	3	3	3	3	3	3	3	3
No of active borrowers	702	1,462	2,244	2,643	3,400	8,628	5,198	6,766
No of loan officers	9	13	13	22	22	19	14	13
% of women customers	33	41	48	46	43	50.4	56	59.3
Total amt. of loans disbursed In hundreds of	2,100	3,085	7,172	13,700	15,205	27,635	53,442	123,725

GH¢								
Total loans outstanding In hundreds of GH¢	2,371	4,904	7,575	10,334	14,886	18,756	29,023	60,938
Total no. of loans disbursed	645	902	1,127	2,100	3,173	5,761	5,528	8,206
Productivity per loan officer	78	112	173	120	155	454	371	520
Personnel productivity	11.7	15.89	20.78	20.81	23.45	55.66	30.22	38.66
Portfolio per loan officer In hundreds of GH¢				900	950	1,094	1,906	4,688

Source: FASL Administration, 2008

The Institution made growth in loan disbursement from **GH¢210,000** in 2001 to **GH¢ 2.8 million** in 2008 with a customer base of 14,341 in 2001 and 90,000 in 2008.

The bank saw an increasing trend in its total number of active borrowers in the period under review. In 2001 the active borrowers were 702 growing to 6,766 in 2008 with an average of 47.1% of women customers. Loan officer productivity measures the productivity of the bank's loan officers. The higher the ratio, the more productive the institution is. It indicates how well the MFI has adapted its processes and procedures to its business purpose of lending money. (Micro Rate, 2003.). The client per loan officer on the average is **247.87** which is a little below the micro finance client/officer ratio of **250 per officer** (CGAP 1996A).

Personnel productivity captured the productivity of the bank's staff – the higher the ratio the more productive the bank. It also measures the extent to which the bank has adapted its processes and procedures to its business purpose of lending money. (Micro Rate, 2003). The indicators are 11.7 (2001), [illegible] (2002), 20.78 (2003), 20.81 (2004), 23.45 (2005), 55.66 (2006), 30.22 (2007) and 38.66 (2008). Discounting 2003, the indicators show a high personnel productivity.

The recovery rate of loans can also be measured by determining the extent to which interest income is used to finance loan loss. An increasing trend indicates the failure of institutions to recoup loans granted.

Inadequate management information system affects the quality of financial and portfolio reporting. As a result of this information for decision making is not adequate and which affect monitoring and loan recovery rates.

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CHAPTER FIVE

SUMMARY OF FIDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 THE OBJECTIVE OF THE THESIS

The private sector clearly is a key engine of growth, and one of the best ways to build an economy. It is from the bottom-up –focusing on small scale entrepreneurs. This means listening to their concerns, identifying their biggest obstacle and helping them compete in an increasingly global economy. Given the right tools, they can create the jobs, and much of the wealth, that societies so badly require.

The main objective of this project was to comprehensively assess the performance of First Allied Savings and Loan ltd. (FASL) as a financier to the small, micro and medium enterprises in their bid to invigorate the country's economic base. The assessment only covered profitability, Liquidity, Efficiency, Activity, Leverage and Investor ratios. It also assessed growth trend, outreach indicators and loan portfolio.

5.2 PERFORMANCE INDICATORS AND THE FINANCIAL SECTOR DEVELOPMENT

FASL commenced official business on September 25,1996 after it had received a certificate to commence business on June 5, 1996. FASL's authorized business is to carry on savings and loan services. The Institution operates with the mission "to offer convenient access to efficient, innovative and responsive financial services to the micro/small scale entrepreneurs on sustainable basis". In furtherance of its mission and objectives, FASL has been accepting deposits from the public and granting advances to its customers. The institution was established purposely to engage in micro-financing activities through the mobilization of savings from the retail public – mainly households and small business enterprises – and the provision of credit largely to its target group (micro and small business financing). The target group oriented credits are usually linked to savings.

The Institution has focused on small, micro and medium scale enterprises, which have not been prioritized by the traditional commercial banks. In addition to agriculture, these enterprises constitute a major source of employment and therefore income for majority of Ghanaians. The relatively low entry barriers for these types of enterprises have accounted for the large pool of people being engaged in these businesses.

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The nature of enterprises and the people engaged in these businesses call for specialized and unique financial skills and products in order to satisfy their needs. Such financial skills and products are very laborious and cumbersome for the traditional banks, which have therefore sidelined these enterprises in their service delivery. FASL has been able to succeed in this area because of the experience and specialized skills it has developed over the years in micro-financing. The skills have enabled the Institution to develop customized products and services to meet the needs of these customers.

Appraising the institution in line with the objectives set in the project work, FASL posted a fairly impressive performance from 2004 to 2005. FASL posted an average profitability of 13%, liquidity of 39.2 %, efficiency 12% and Investor Ratio of 628%.

The deposits and customer base increased over the year's whiles the volumes increased from GH□ 589,600 (2001) to GH□ 9.3 million (2008) The customer base increased from 51,049 in 2001 to 90,000 in 2008, but at a declining rate.

The recovery rate of loans can also be measured by determining the extent to which interest income is used to finance loan loss. An increasing trend indicates the failure of institutions to recoup loans granted. The provision for loan loss to interest income ratio was 1.65% (2004), 4.6 %(2005) 16.95% (2006), 2.44% (2007) and 3.62% (2008). These ratios indicate a high default rate.

5.3 FASL OPERATIONAL CONSTRAINTS AND LIMITATIONS

5.3.1 Regulatory constraints

There are a number of problems identified in the course of the study. One of the major issues is that micro-finance service providers do not meet the entry requirements for licensing by the bank of Ghana, for which FASL is not an exception. Thus by the year end 2006 the minimum capital required to operate a Savings and Loans Institution in Ghana is ¢15 billion, whilst FASL has only ¢5 billion leaving a balance of ¢10 billion to be raised by 2008 by which case their inability to meet the capital requirement will require BOG to adopt any measure for increase in their share capital no matter the consequence. This has therefore generated the search for increased capital through foreign partner to meet the capital requirement.

5.3.2High micro finance operational cost.

The operations of microfinance institutions are costly. From 2001 to 2008 the transactional cost of FASL forms an average of 87% of the total net interest income which falls below 75% in the conventional banking sector. This has constrained the institution's expansion programme. It is no surprising that for its 13 year existence, the institution has only 3 branches.

5.3.3 Inaccurate reporting systems and delay in submission of report

It can also be said that the operational requirements for the operation of either a NBFI or a financial institution are clearly stated by the regulatory authorities. However, these requirements lack components that provide a good environment for the operation of these institutions. The operational requirements touched on issues such as corporate governance, markets and clients, credit methodology and distribution, but failed to address the issue of information technology of the various micro finance institutions. Since information technology is not seen as one of the major operational requirement, non of the operating institutions with FASL not being exception borders so much in computerizing their activities with FASL being semi-computerized. It is then clear that since almost all operations carried out are semi-manually, that delays the timely submission of reports to the regulatory authorities which poses a major problem for the institution.

5.3.4 Lack of an Integrated Information System.

Modern institutions require the infrastructure to network its branches and integrate every facet of its operations. An efficient software is required to meet all of its requirements. FASL falls short in all these respects. Also there is no proper database on micro small and business institutions for micro-finance industry in Ghana. Various attempts have been made to put these service providers with wide variations together for the purpose of enabling them undertake unified system of data gathering for the purpose sharing common information.

Further to the regulatory policies in shaping financial institutions is the principal legislative instruments under which FASL working under the NBFIs law 328 and the Bank of Ghana Business rules. The major constraints placed on FASL by these legislative instruments are: that FASL, like all the other savings and loans companies, is prohibited from clearing customers' cheques through the clearing house system as well as engage in foreign currency transactions. Not being able to engage in clearing system deprives them from mobilizing high deposits from medium term enterprises with networks around the country and beyond. The institution's inability to deal in foreign currency transactions deprives the institution from a source of high fee income which their counterparts in the banking sector rake in lots of foreign currency income for expansion and growth. Rule 7.1a of the NBFI law 328 requires the savings and loan companies to maintain a reserve fund into which shall be transferred "an amount of not less than **50%** of the net profit, until the amount in the institution's Mandatory Reserve Fund equals the minimum prescribed paid up capital". This rule deprives shareholders of any meaningful dividends in the institutions operations in the first six (6) years.

5.3.5 Lack of operational policies and manual.

A key to efficient and effective operations is an operational manual. This manual gives guide as to how transactions are raised and the control requirements of different aspects of the operations. The absence of an operational manual has resulted in a situation where the institutions branches and department use different operational procedures in their work.

5.3.6 Poor recovery rate

The recovery rate of loans can also be measured by determining the extent to which interest income is used to finance loan loss. There is also high risk associated with recovery rate of the micro-finance institutions in Ghana.

The provision for loan loss to interest income ratio was 1.65% (2004), 4.6 % (2005) 16.95% (2006), 2.44% (2007) and 3.62% (2008). These ratios indicate a high default rate.

Further contribution to the problem of poor recovery rate is the poor and inappropriate management information systems. This affects the quality of financial and portfolio reporting. As a result of this situation information for decision making is usually inadequate and that affect tracking of customers and recovery rates.

5.3.7 Human resource planning and training weaknesses

There is also no laid human resource planning for job placement and training. The establishment of human resource department for the development human resource planning for staff placement from the beginning of the year and the assessment of staff training needs so that staff do not attend course in an ad hoc basis.

Also, staff training is done through external institutions such the Banking College (Industry based college), Management Development and Productivity Institute (MDPI), and Ghana Institute of Management and Public Administration (GIMPA). Training provided by these institutions are generic and therefore not tailor made to meet the needs of FASL Ltd. This type of training is not planned and therefore do not cover all levels of operations. Thus, certain categories of employees do not have access to any training at al apart from on the job training which lack a well laid down procedure manual for staff to use as a guide.

5.3.8 Lack of Competitive Intelligence System

The relative success of microfinance institutions has attracted competition into the sector. Even conventional banks are now moving into the microfinance sector. This poses a threat to existing microfinance institutions. These conventional banks are entering with their financial and operational strength. There is the need for an effective system to track the movement of existing rivals and these conventional banks so that appropriate strategies will be adopted. FASL lacks such a system.

5.4 CONCLUSION

The spectrum of microfinance institutions in Ghana is so wide and varied in scale to the extent that it is difficult for the Central Bank to regulate and supervise all of them efficiently and cost effectively. Microfinance institutions play a strategic role in the financial system in Ghana and also provide financial services to participants. It would also not be prudent to use cut-off points to eliminate the numerous unregulated informal microfinance service providers. It is also a known fact that fact about 60% of the money supply in Ghana is outside the formal banking sector (Dadson, 1997). It is obvious that the commercial banks would not serve "poor" customers. Most of institutions reaching the very poor clientele right now are Non Governmental Organizations (NGO) and the informal money lenders. Since these institutions do not have financial licenses, they can not leverage their resources by capturing deposits, and they cannot provide savings services to their clients. The requirements for a regular banking or NBFI license are too high for these institutions interested in poor clients. Thus we need a separate window for Micro Finance Institutions, with lower barriers to entry and standards better suited to microfinance. The existence of such a window will improve performance of the NGOs and even moneylenders trying to qualify for it, and will draw forth solid new entrants who are not yet on the microfinance scene.

This thesis recommends an approach to establishment of information technology based process for the operations of microfinance institutions to enable them get a uniform operational procedure for efficient performance.

FASL has since its incorporation carved for itself an enviable reputation among the savings and loans companies within the economy. The Institution's reputation has been encapsulated in its sustained programme of provision of efficient and innovative financial services to meet the needs of its customers. The Institution is currently rated high among its competitors in terms of services delivery and responsiveness to clients' needs.

FASL success within its short period of existence has been due to pro-active strategies that management has been pursuing. The Institution has very experience and talented personnel despite its lack of human resource development planning who occupy most of their positions. The Institution's responsiveness to its customers' door steps through the outreach programme has contributed to the Institution's positive image and rapid deposit growth. The location of the Institution's branches and agency and its ability to develop products to satisfy its market niche have enabled it to be more competitive within the industry.

The success of the Institution is also due to effective structures that have been put in place to ensure efficiency in its operations. Currently, the institution has a fully fledged credit department, distance banking department, debt recovery team and inspectorate department to ensure that advances to clients are effectively recovered.

The liberalization of the economy and the policy measures that have been put in place to invigorate the private sector have led to the setting up more enterprises which are creating demand for financial services. Further, the small scale sector, which used to be dominated by the less educated has now witnessed an increasing entry by the educated who understand and appreciates the financial services being provided by savings and loans companies of which FASL is a major player. These developments therefore bode well for the future of micro-financial services required by small, micro and medium scale enterprises.

First Allied Savings and Loans Ltd having carved a niche for itself will continue to do well if appropriate strategies are adopted.

5.5 RECOMMENDATIONS FOR THE DEVELOPMENT OF MICRO-FINANCE INSTITUTIONS AND FASL LTD

5.5.1Regulatory and Supervisory Approach

The microfinance sector is evolving and considering the foray of conventional banks into the sector there is the need to establish a central body like Apex Bank, with regulatory and supervisory functions to oversee the development and operations of institutions.

5.5.2 The legal approach

In many respect, business developments have often been ahead of legal developments. Given the positive role the micro-finance industry plays in society, it is submitted that any statutory enactment or regulation made to affect that industry must be shaped in a manner that will promote the goals of the industry. The rules must be written in simple plain language that the average literate micro-entrepreneur can read and understand.

More importantly, there should be no place for archaic or confusing legal jargons and technicalities in the drafting or interpretation of micro-finance rules. Above all, the views of the industry participants must be considered in the formulation of the rules. In this connection, the on-going global debate as to whether the industry should be formally regulated should only serve as guides when formulating a regulatory framework for the industry. Any legal transplant must be done with circumspection.

5.5.3Strengthening of microfinance apex body for effective regulation and supervision

There is therefore the need to strengthen the authorized apex body Ghana Microfinance Institution Network (GHAMFIN) for micro finance institutions that will see to the general development of the microfinance sector. The apex boduy will then be authorized agency that would be charged with the regulation, supervision and the development of the system.

5.5.4 Micro- credit Delivery System

A micro–credit delivery system should be adopted which will be simple and adaptive to the requirements of target customers. It should also have an in–built security, opportunity to save, access to loans and a monitoring system.

5.5.5 The role of government

Financial support is the most vital area to promote the small , micro and medium enterprises in Ghana. Apparently, the foregoing analysis suggests that government has since independence been making impressive efforts to assist small scale businesses in the form of credit. However, it must be emphasized that the impacts of these efforts have not been very significant. The problem of finance still appears to be intractable among small business holdings. While funds made available under the various schemes are simply not adequate, an overwhelming majority of small business holdings are not aware of such facilities. Other problems thwarting the government's efforts include the diversion of funds, low recovery rate and institutional bureaucracy

Therefore in order for government to ensure that its efforts are not in vain, the government can choose to support the microfinance institutions through macro policies, the allocation of resources that affect micro production, or work with these institutions that provide services and training. Government's active collaboration involves the establishment of favourable climate to enable these institutions to continue and expand their work with support but not interference from government entities. These efforts can include recognition of micro enterprises sector, support to discuss issues confronting their smooth operations, funding research, and scaling up pilot programs

Further the legal system of the economy, the government must ensure to make it as efficient as possible to help financiers enjoy rapid judgment from their defaulting clients to improve upon their recovery rate and to enable them generate enough income for growth and expansion.

5.5.6 Competitive Intelligence System.

The institution should consider the establishment of an in-house competitive intelligence to track and monitor competitor activity and respond accordingly.

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Appendix 1

QUESTIONAIRE

KWAME NKRUMAH UNIVERSITY OF SCIENCE & TECHNOLOGY

PERFORMANCE EVALUATION OF FIRST ALLIED SAVINGS & LOANS LIMITED (FASL) AS A MICROFINANCIAL INSTITUTION

1. Name of Institution

2. Address

....

3. Year of establishment

4. Number of Staff

Year	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Number								

5. Available Operational Policies/Procedure Manual (please tick)

* Credit policies/procedure manual	yes	no
* Savings policies/procedure manual	yes	no
* Accounting policies/procedures & admin manual	yes	no
* Internal auditing manual	yes	no

*Personnel policies/procedure manual yes no

6. What is the total number of depositors since 2001

Year	2001	2002	2003	2004	2005	2006	2007	2008
Number								

7. What is the total deposit mobilized?

Year	2001	2002	2003	2004	2005	2006	2007	2008
Amount								

8. What is total number of borrowers?

Year	2001	2002	2003	2004	2005	2006	2007	2008
Number								

9. What is the total amount of loans granted to your customers?

Year	2001	2002	2003	2004	2005	2006	2007	2008
Amount								

10. Please classify your loan into the categories below

Year	2001	2002	2003	2004	2005	2006	2007	2008
Amount Due								
Amount Paid								

11. What are the main activities of the Institution?

12. What is the total assets of the company?

Year	2001	2002	2003	2004	2005	2006	2007	2008
Amount								

13. What are the major problems facing the Institution's operational efficiency?

14. What sector of the economy do you serve most? Please rank them

a. Commerce

b. Manufacturing

c. Services

d. Agriculture

e Construction

Others: Please specify

15. Indicate highlights of the Institution's performance over the years

Year	2001	2002	2003	2004	2005	2006	2007	2008
Interest Income								
Interest Expenses								
Comm. & Other Incomes								
Prov. For doubtful debts								
Depreciation								
Taxation								
Total Assets								
Advances								

Liabilities								
Stated Capital								
Reserves								
Other Liabilities								

16. Please list the number of individuals and Institutions you have responded to the social request.