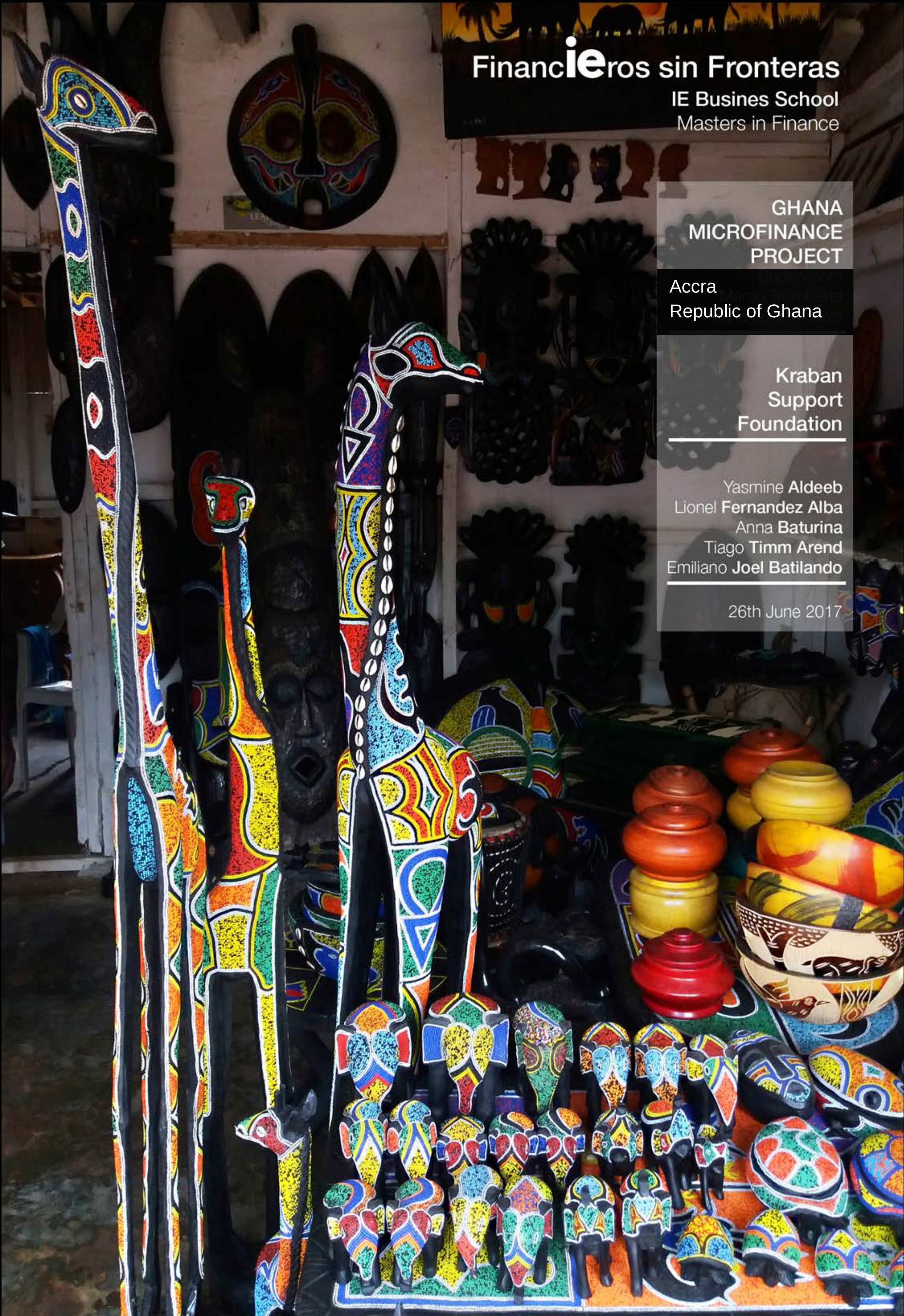

Financieros sin Fronteras

IE Busines School

Masters in Finance

GHANA MICROFINANCE PROJECT

Accra
Republic of Ghana

Kraban Support Foundation

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26th June 2017

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Executive Summary:

Kraban Support Foundation, henceforth KSF, is an MFI based in Accra, Ghana. KSF in recent years has suffered from falling revenues and a shrinking loan portfolio which management claims is a result of new regulations from the Bank of Ghana. A new license required by the Bank of Ghana for MFIs has resulted in a drop in clients and increased delinquencies. A deeper investigation into KSF however has revealed a host of problems which were only exposed as a result of the MFI's recent downturn. Significant issues found in KSF include:

- High dependence on few key employees
- Inadequate management information systems
- Absence of business and future planning

Overall operations of KSF are overseen by a small number of employees with most tasks being overseen by the CEO, Nana Djan. The reliance on the CEO and the lack of employees for key roles such as a CFO or controller stifles growth. As staff in the main office conduct a variety of roles with no specialization, issues regarding internal controls and policies run into issues. There is a general lack of oversight on KSF's other branches and areas such as accounting have suffered. KSF's financial are found to be full of significant errors which makes any financial analysis impossible.

KSF's current MIS is also insufficient to support its operations. KSF's main office and its two branches fail to adequately share information leading to an overall lack of data available which poses several problems. Any form quantitative analysis whether on operations, clients or financials is impossible for the institution and interested investors. Tracking and analysing loans at the institutional level is not possible due to poor information control which exacerbates the problems with KSF's loan portfolio and financials.

Finally, the institution appears to lack a proper strategy or a plan to follow for the future. KSF, to combat falling revenue from loans, has implemented a variety of new products in an attempt to win new customers. However, lack of information regarding loan quantities make it difficult to assess the success of these new ventures.

Overall, KSF needs to overhaul their organization and address the issues outlined. As of now, the institution will not benefit from fresh funding but instead would greatly benefit non-financial assistance. While KSF's recent financial performance has been weak, the MFI still has a very viable core business and strategic assets which can be leveraged. As such, advice on accounting, managerial control, and creation and implementation of a proper MIS are some areas which KSF's management can benefit from. Further research on the overall microfinance industry as well as market studies can also help KSF formulate a strategy for their future.

Table of Contents

1.0 Overview

This section provides a brief description of the institution and how it fits into the microfinance industry in Ghana. It outlines the instittuion's vision and mission, organizational strengths and weaknesses, macroeconomic linkages as well as political and other external factors.

1.1 Summary of Institutional Data

The legal name of the MFI is Kraban Support Foundation – hereinafter KSF. KSF was founded in 1996 by seven people, including the current CEO, Nana Opare-Djan, and Board Member, Hilary Grace Wobil. The main objective of the institution is to provide micro-credit and entrepreneurial training for members of the community and be a tool for human development in Ghana. It modified its operations to become a Micro Finance Institution and is currently registered in the Registrar General Department under the Ghanaian Companies Code of 1963, Act 179. Currently KSF is pursuing the official micro-credit license from the Bank of Ghana, therefore it is still classified as a semiformal financial institution.

1.2 Mission and Vision

KSF has a specific mission and vision that are formalized in their Strategic Plan. These are spread throughout the foundation and visible in the head office for all employees and clients who eventually visit the office (see Exhibit 1)

> *Mission: "To develop innovative strategies that enhances the capacity of vulnerable groups to operate independently and effectively in the informal sectors of the Ghanaian economy."*
>
> *Vision: "Kraban believes in a sound transitional pro-poor strategy towards a path between market responses and social demands with an imperative gender focus. With this perspective, Kraban hopes to be the leading financial non-governmental institution in Ghana by 2025."*

KSF's clientele list is consistent with their target group. The large majority of their clients are micro entrepreneurial women, who comprise 98% of the client list. However, the mission and vision of the institution do not clearly state the impact it wishes to achieve on clients' lives. It also does not mention the guiding principles employees and collaborators must follow. This may create inconsistencies in the management of the institution – despite the awareness of their mission and vision – since the steps KSF must take in order to become the leading institution by 2025 are not stated.

Recommendations:

Clarify mission and vision and document it on every KSF´s communication platform: The mission and vision should be reviewed by the board, management and staff jointly, to establish in a clear way why the institution exists, where it currently is and what it hopes to accomplish. A clear mission and vision will be a source of motivation for the Institution, and will allow board, management and staff members, work together as a team that pursue the same, clear and specific, goals.

The mission should succinctly state the target market, the extent of the impact it strives to achieve, and guiding principles that will be used to reach their long-term objectives. It should be translated into specific social goals and answer the following questions: Who does Kraban wants to reach? How is Kraban going to meet their customer's requirements? What are their desired outcomes?

Since KSF is in the process of developing its manuals and guideline documents, showing a clear mission and vision on every platform, such as the KSF website, is an opportunity to enhance KSF's social and strategic character and to clarify the main objectives. This will attract partnerships and possible alliances with other international organizations sharing KSF's goals.

1.3 Organisational Strengths, Weaknesses and Competition

SWOT Analysis: A SWOT analysis is an integral part of any MFI's strategic planning process as it provides a good all-around view of the institution's current and forward-looking situation. The strengths and weaknesses sections provide a look at factors affecting its internal current position. The opportunities and threats sections help the institution to project both, external possibilities and challenges going forward. Each of these four sections has specific advantages to the overall analysis.

KSF

Strengths:

- strong relationship with clients
- clients are appreciative of the training provided by the MFI
- employees are aware of the mission and commited to it
- financial statements show an increase in prrofitability
- well documented internal guidelines

Weaknesses:

- incorrect and outdated financial statements
- no precise information on number of clients and loans
- highly dependent on few employees
- innability to provide current employees with a stable salary
- uncollaterized loans
- weak corporate governance
- board lacks operational expertise

Opportunities:

- untapped market of over 65% of population
- big market segment in Ghana
- become one of the few institutions with the license from the Bank of Ghana
- extend their spectrum to different regions inside the country where fewer MFI´s provide services
- Stabilized economy growth and inflation
- promises of investments coming to the country as a result of current scenario

Threats:

- not complying with the BoG requirements for the license
- steep business cycles could affect the funding capacity during economic downturns
- accounting practices and weak control facilitate fraud
- deficient energy supply difficultate digitalization of data and access to information
- Increasing competition on financial services segment

Competition: The competitive environment is the dynamic system in which institutions operate. The state of the system, as a whole, limits the flexibility of any institution´s operations. A good understanding of this environment helps to:

- Understand the external factors affecting the institution´s operations
- Learn the way competitors operate and identify their weak points to be able to exploit them.
- To generate your own ideas that are better.
- Improve the institution´s products and services and make them better than that of the competitors.

According to a paper produced by the Bank of Ghana, microfinance is not new to the economy[1]. Legislation dating back to 1991 (PNDC Law 328), allowed the establishment of non-bank financial institutions (hereinafter NFBI). Regulation segmented microfinance institutions into three categories:

- Formal Suppliers of Microfinance: i.e. rural community banks, commercial banks, savings and loans companies.
- Semi-formal Suppliers: i.e. credit unions, FNGOs, cooperatives.
- Informal Suppliers: mainly individual money landers

[1] https://www.bog.gov.gh/privatecontent/Research/Working%20Papers/Microfinancing(1).pdf

Since this regulation, credit began to be provided to small enterprises and cooperatives especially in the rural area of the country. According to the report by Bank of Ghana (BoG hereinafter), the government has a positive view on microfinance institutions since it is known that the formal financial sector has a tendency to ignore the lower segment of the society due to lower profitability driven by the high risk involved. The BoG also recognizes that microfinance institutions are extremely important in order to improve life conditions of the poorest and plays a significant role on hot-button issues, such as women empowerment, reducing HIV spread and life conditions improvements.

From the information in Table 1, it can be concluded that FNGO´s have failed to expand their outreach and currently only provide service to 7.1% of total Ghanaian portfolio of loans. In his paper, Professor Trombetta[2] argues that the main reasons are the difficulties of coping with regulations and new requirements and low operational capacity.

According to Trombetta et al, 65% of the Ghanaian population remains financially excluded. To resolve this issue, he states that the government has intensified its efforts – during the last ten years – to create a more inclusive financial system and is doing that mainly through microfinance. The effort by the BoG is based on five main pillars: (1) financial stability, (2) access, quality and usage of financial services, (3) financial infrastructure, (4) financial consumer protection and (5) financial literacy.

The market is even more untapped on the segments KSF focuses. Of the poorest 40% of population, among rural and women population, only 34-35% borrowed money in 2014 and almost two thirds of it came from family and friends.

A report on financial institutions' performance produced by GHAMAFIN shows that profitability is also a challenge for FNGO´s in Ghana. The difficulty of capitalizing is evidenced by the average Capital Asset Ratio of 33% – 43% higher than their African peers. The debt-to-equity level is also lower in Ghana – 2.0 versus an African average of 2.7 – which hurts the ROE for these institutions. In 2012, Ghanaian FNGO´s achieved a -7.1% ROE while the global benchmark is 7.3%. As a result, profit margins are also much lower in Ghana at -28.5% while the global average is at 8%.

However, it is interesting to notice that Ghanaian FNGO´s are more efficient in allocating their staff. The report indicates that institutions in the country have an average of 221.9 clients per staff member, while the global benchmark is only 62% of this figure. This fact also makes the cost per client lower in the country.

[2] *Microfinance institutions and micro & small enterprises in Ghana. Author: Trombetta, Luque, Casadio - F-33114-GHA-1*

Table 1: Ghana's Microfinance Industry as of Dec. 2012

	Number of:			Portfolio (GhC mill)		Total	Total Clients %
Type of Institution	IMFs Reporting	Depositors	Borrowers	Deposits	Loans	Clients	%
Rural & Community Banks	133	4.165.889	90.0685	1.185,6	648,5	4.165.889	63,60%
Savings & Loans Co.	12	1.058.083	138.336	470,5	421,7	1.058.083	16,20%
Credit Unions	444	465.206	149.255	382,1	319,7	465.206	7,10%
FNGOs	20	-	207.919	-	13,4	207.919	3,20%
Susu Collectors	480	186.679	-	8,5	-	186.679	2,80%
Microfinance Companies	226	467.289	192.751	152,7	128,9	467289	7,10%
Total	1315	6.343.146	1.588.946	2.199,4	1.532,2	6.551.065	100%

Source: GHAMFIN. Performance Monitoring and Benchmarking of MFIs in Ghana. Trends in the Industry during the 2000s.

All the above mentioned, added to the vibrant and growing economy of Ghana leads to the conclusion that the lack of efficient regulation, difficulties in funding and correct pricing of their products are the main issues impeding the sustainable outreach of these institutions.

KSF has not experienced growth in the past few years, in reality it has shrank its business (c. 15% reduction in total loans from December 2014 to December 2016) and this is reflected on the staffing. During the visit, only three employees of KSF were met, however it is possible to conclude that they are not in a position to sustain growth. The financial statements have many mistakes – which will be discussed in detail on this report – information on number of clients, products and outstanding loan portfolio are either incorrect or non-existent and the current staff members are not prepared to expand operations.

During the visit, basic information, such as the total loan portfolio or client list, proved to be hard to access. The institution is currently digitalizing the data however, the hard copies are not updated and often times incorrect.

From the financial statements to client´s records, everything in KSF is very opaque. Information is hard to find or not available at all. Moreover, the CEO controls all documents and board members are unaware of the current situation of the business. An active board and an independent controller inside the company are necessary to improve the quality and availability of information.

1.4 External Environment

The external environment plays a critical role in shaping the future of entire sectors and those of individual businesses. To keep the business ahead of the competition, managers must continually adjust their strategies to reflect the environment in which their businesses operate.

Since the return of Ghana to a multi-party system, it took many steps in its objective of becoming a truly democratic country. According to The World Bank[3], its judiciary system has proven to be independent and the country consistently ranks among the top three countries in Africa on freedom of press and speech in Africa. In December of 2016, Mr. Nana Dankwa Akufo-Addo was elected President in a dispute against the former president Mr. Mahama.

Inflation, an ongoing concern on Ghanaian economy, has recently decreased to its lowest level since September 2013. For the sixth consecutive year it decreased, reaching 12.8% in March of 2017. Analysts'

[3] http://www.worldbank.org/en/country/ghana/overview

consensus is positive and they believe consumer price increases will continue to deaccelerate even further bringing it closer to central bank´s target of 6% - 10%. Despite the high interest rate of 23.5%, this represents an economy reaching a more stable phase in the cycle with GDP growing an average 4% year-on-year on the previous two years. This increases the likelihood of investments in the country and raises another opportunity for KSF to intermediate between those seeking returns and those in need of capital.

The view of the World Bank on Ghana is positive and economic growth is expected to pick up in 2017, pushed by increase in the oil and service sectors. However, despite the positive outlook, the western African country still must face many challenges. The World Bank mentions youth unemployment, high costs of debt and electricity as the major challenges for Mr. Akufo-Addo´s administration.

As a result of these improvements, the quality of life in Ghana improved substantially. The GNI per capita increased from USD 2,970 in 2010 to 4,080 in 2015. In the same period, adolescent fertility rate decreased from 71 to 66 births per thousand women with ages 15-19. Mortality rate for under 5-year-old children also decreased from 75 to 62 per 1,000 births while life expectancy remained stable at 61. Education, another major issue in developing countries, is also improving with the percentage of enrolment in secondary schools growing from 57% to 71%.

According to the 2010 Population and Housing Census issued by the Ghana Statistical Service– issued in 2013[4] and with updates in 2016[5] – the total population of the country is 28.3 million, of which 14.4 are female and 13.9 male. According to the census circa 16.2% live in the Greater Accra region and the average household size is 4.4, however, this number reaches 7.7 in the northern region while being much lower in the greater Accra where the average drops to 3.8.

Ghana is a very religious segmented country. Pentecostal is the largest religion and is expanding its reach – from 24.1% of the population in 2000 to 28.3% in 2010. Protestant churches attract 18.4% while Islam expanded its presence from 15.9% in 2000 to 17.6% ten years later. Catholic and other Christian churches reach 13.1% and 11.4% of the population. The regional distribution of these religions is also clear, especially in the North where 60% of residents are Islamic.

It is also interesting to observe that the reach of technology is also expanding rapidly. Mobile subscriptions in 2015 were 129.7 per 100 people, almost double the figure in 2010. Internet users are also a quarter of the population now, a great increase from 2010 when only 7.8% had access to the web[6]. Currently in Kenya, 66% of the population uses a mobile phone to receive payments, Ghana lags behind such peer with only 1.5%[7]. This increase the current as the penetration of mobile phones continue to increase and the population becomes more familiar with the technology.

[4] http://www.statsghana.gov.gh/docfiles/2010phc/National_Analytical_Report.pdf

[5] http://www.statsghana.gov.gh/docfiles/2010phc/Projected%20population%20by%20sex%202010%20-%202016.pdf

[6] http://databank.worldbank.org/data/Views/Reports/ReportWidgetCustom.aspx?Report_Name=CountryProfile&Id=b450fd57&tbar=y&dd=y&inf=n&zm=n&country=GHA

[7] http://www.centerforfinancialinclusion.org/storage/documents/EIU_Microscope_2016_WEBr2_2016.11.03.pdf

2.0 Institutional Set Up

This section describes legal and institutional aspects, allowing to provide an analysis of how it is organized internally (ownership, governance and managerial structure) and how it interacts with its shareholders, clients, competitors and other organizations. More particularly, it explains how it fits into the regulatory framework and supervision to which it is subject. It also provides information about its management, information and communication technology, data availability and quality, internal controls, and external auditing.

2.1 Ownership and Governance

KSF is a Financial Non-Governmental Organization (FNGO) registered under the Ghanaian Companies Law of 1963 (Act 179) as a company limited by guarantee and therefore has no owners but a board of directors that act as the higher decision body but does not have any fiduciary responsibility. It is also registered in the Department of Social Welfare of Ghana. The institution currently operates as a semi-formal entity since it is in the process of acquiring the license from the BoG to operate as a Tier-3 formal financial intermediary.

KSF is a FNGO and therefore is regulated as such. The owners/promoters created the company and funded it in its inception. It is led by a CEO who responds to a board of directors. The board is comprised of the following members:

Dr. Marthew Etrebi Chairman
- Army Srgeant
- Self-employed farmer

Ezekiel Obuobsiah Board Member
- Chief Accountant for the Land Registration Division

Jerry Thompson Amo Board Member
- Small business owner

Augustine Amankwa Board Member
- Theologist
- Secondary teacher
- Church administrator

Eunice Ameyaw Board Member
- Bachelors in Business Administration

Hilary Grace Wobil Board Member and Vice Chairwoman
- School teacher
- One of the initial subscribers

Fatima Ewudzie Board Member
- Former client of Kraban

Nana Opare-Djan is the largest individual stakeholder with 29% of the subscription and makes all the decisions concerning daily activities and company strategy. He is followed by Ricky Boakye with 20%, and Hillary Grace Wobil, who is also a board member with 16%, and the remaining 35% owned by the clients.

Going over the Policy Plan of KSF, it is clear that every important decision – i.e. how much to borrow or lend, developing new products, investment decisions – are under the scope of the board. According to management, meetings are held quarterly, however minutes of the meetings are not available and the board members were unable to recall the issues discussed. Moreover, no information is provided about how long board members have remained inside the company and how independent they are. This indicate that the board is not very active and not accountable.

Despite a subscriber sitting in the board, they have no knowledge of the company current situation besides the strategic mission and company´s values. Hillary Grace is the only stakeholder in a position to make changes to company structure. However, during our meeting with the board it became clear that, although their intentions are good and they are aligned with the foundation´s mission and vision, they lack knowledge of the MFI's activities and the financial skills to understand the issues with the financial statements and products' profitability. The board is not ready to make any strategic decisions or shift the direction of the institution. As a result, the CEO takes full control on guiding the company while holding no accountability.

A major example is the personal expenses of Nana being listed in the journal entries. This gives an understanding on the reach of the CEO´s power and the lack of accountability of the firm. Clients through their deposits are considered subscribers of the company. However, none of the clients interviewed had documents that could indicate how much they have in deposits with KSF nor how much is their balance. Even though KSF has strong ties with their clients, clients have no information on how KSF runs their business and the current financial situation.

Recommendations:

Implement a serious corporate governance structure: Having a good corporate governance in place is important to guarantee the institution´s long-term sustainability as it makes sure the MFI will obey regulations, act in accordance with its strategic goals and ensures accountability throughout the entire organization. KSF should focus on improving its governance structure to have higher chances of forming strategic alliances with potential donors and investors.

Alter the board of directors: Five board members should be elected, and as a requirement they must have knowledge in accounting – proven by a school certificate of studies in the field – and experience running a business. By letting the clients have a say on the board constitution we ensure that the company will be run in their best interest and that the CEO will be working to safeguard their deposits with KSF. To attract more investors, board seats could be assigned by new investors and provide assurance to them that their funds will be managed accordingly. The institution should also include in its manuals the responsibilities of each member and the requisites for receiving a seat.

Board meetings: Board meetings should be held quarterly and be documented in minutes, which include the decisions taken and the goals set. This ensures that the decision-making process will be formalized and the board becomes accountable for the results of their actions

2.2 Management

KSF now has a management team of 4 members with the Executive Director as its head. Other members of the management team include the following positions and as a team, review the activities and operations of the organization.

NANA OPARE DJAN CEO

- BA in Political Science & Law
- Masters in Adult Education
- PhD in Development Studies

EMMANUEL ABOAGYE Project Coordinator

- Higher Education in Accounting and Cost Management
- Certification on Computer Hardware
- Diploma in Computer Software
- Extense professional experience with focus on accounting

JOSEPH KWESI Branch Operations

- Diploma in Marketing
- Sales executive before joining KFC

NANA AMA Human Resources

- Bachelor Degree in Human Resources Management
- Certificate in Business Management
- Diploma of Computer Training
- No relevant prior experience

Nana Djan, the CEO has a strong profile, with an extensive list of work experience and education. He graduated in Political Science & Law, has a Masters in Adult Education and a recent PhD in Development Studies & Environmental Science. Although he has no formal training, neither in Finance nor Management, he completed multiple trainings and possesses many certificates in this field. During his career, he coordinated multiple projects in different fields and during a small period of time. He has also published many papers during his career with a special focus in social development and poverty reduction.

The profile of the team reveals that the company hires people from multiple backgrounds, but with a slight preference for workers with experience or studies in the field of business. A personal trait that many workers indicate on their CV´s is the ability to be a team player. This seems to be very important for the company as it probably facilitates working with cooperatives and groups of clients. From the employees analysed, two seem to be very specialized, they are Emmanuel and Nana. Both have courses on the specific areas they work in, and are the people who take a good amount of responsibility inside KSF. The first three employees are in charge of all daily activities, which involve: meeting clients, update the accounts and implementing the TEACH methodology. The CEO is the one responsible for seeking funds and currently preparing the documentation for the License with the BoG. Despite having a background with accounting Aboagye was not worried about the obvious issues with the Balance Sheet.

If for any reason Nana would be unable to fulfil his obligations, the company would face serious problems. He is the person who create the connection with clients and controls all company data.

Recommendations:

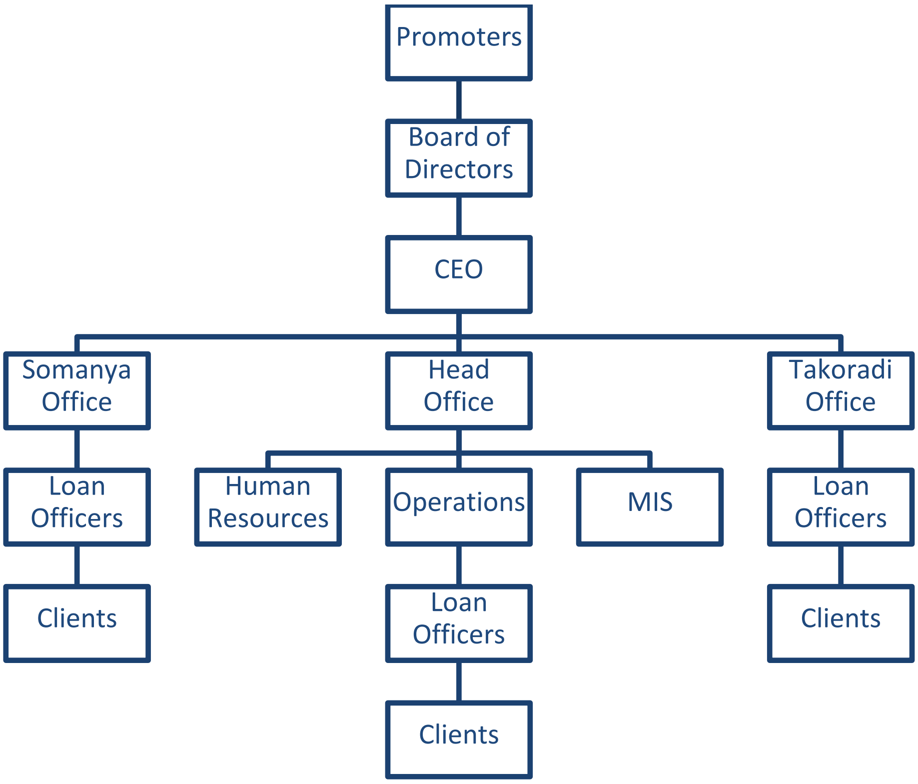
Hire a controller/accountant: the company must add to its permanent staff a controller with a better understanding of financial statements and the ability to arrange and organise company data. It is however imperative that the MFI overcome the current financial situation to be able to pay a salary for employees and retain the talent they attract. Having an independent controller would also help in that case, since the person in that position would also have access to vital information of the company and the capability to communicate it to the board. This increases transparency inside the organization and allows the board to receive early signs of issues, making it capable to react faster and set a response plan.

Credit Committee: KSF should implement a Credit Committee to evaluate the potential loans given to clients and possible loans to employees or board members. The decision of accepting or rejecting a loan should be shared by more than one person in order to eliminate potential conflicts of interest.

Increase employee efficiency: KSF´s office is located in a busy marketplace of the city of Accra. By identifying potential clients in that region and increasing the number of group loans, the institution will be able to increase its efficiency as do their peers in the country.

Decrease the dependence on the CEO: KSF has the opportunity to pick up growth once again. However, it will not be possible with the current structure. The CEO needs to hire capable people or improve the training of the current staff to be able to delegate more tasks.

2.3 Organizational Structure



KSF is a small FNGO with a single social focus and operating in a medium-sized geographic area that follows a functional model organized around several key departments. Both branch managers and the Head Officer report directly to the CEO, who responds to the Board of Directors. All decisions are centralized around the CEO who is not held accountable to his actions. However, the objectives, responsibilities and tasks performed by each position are not made clear and specific information is missing. Some are trivial and easy to infer from the position name – i.e. Loan Officer – but a clearer understanding of the tasks performed by Community Animators for instance and their relevance to the overall performance of the company would be preferable.

From the information shared by the CEO, approximately 80% of KSF’s client base is in Accra. This calls into question the decision to have two branches separated by 150km and 680km from the head office respectively, since they incur costs and bring less contribution to the portfolio of loans. Unfortunately, a meeting with the credit officers or branch managers from any of the two offices was not possible.

Given the issues discussed earlier, KSF's headquarters are deeply understaffed. With only three employees handling daily activities, it becomes easy to understand why the institution has so many issues with the organization of the ledgers, client lists, financial statements and documentation.

According to the CEO branch managers do not participate on board or management meetings. The information on the results of each branch is collected when they visit the locations. All decisions regarding the branches are centralized and discussed during board meetings.

Given that the company as a whole is understaffed, it can be affirmed that Nana, Aboagye and Joseph are given too many functions. Given that there are only two employees and the CEO to visit all clients on the Accra region – even considering that clients can be met in groups – other responsibilities, make the task off visiting clients on a weekly basis difficult to accomplish.

The structure in place and the branches would be effective if KSF had the necessary resources and staff. During meetings with clients a recurrent complain was the lack of funds offered to current clients to further increase their loans. If given the opportunity, most of their clients would apply for more loans with the foundation.

Recommendations:

Further analysis of the two branches: The institution should carefully analyse the benefits of terminating operations in the two branches. Management should understand what the contribution of each branch are and the costs associated with it. Once they have these numbers, a decision on whether to continue to operate the branches if they are profitable or not.

Incorporate the data and financial results of the branches: During the visit, it became clear that the branches do not report properly their results and financial statements. No information on number of clients, loan portfolio or income for any of the branches were provided. Having the information on how the branches operate is imperative to avoid fraud or even to prepare the strategy of the institution moving forward.

Invite branch managers to Board Meetings: it is important that branch managers also participate on the quarterly board meetings. They must present the evolution of the business and the financial results every period. Even though they operate with less clients, a negative financial result could generate a crisis on the entire institution. Managers should therefore be aware of the overall situation at all times. It is also important to be able to show potential investors where their money will be going and by whom it will be managed.

2.4 Human Resource Management

KSF's policy plan contains detailed guidelines and rules not only for the recruitment, but also on how processes work, job requirements and even policies for receiving study leaves, scholarships and pay raises. All processes appear to be well thought out and compatible with the overall strategy of the company, an example of this is the gender policy currently in place.

The implementation of these policies and procedures could not be corroborated since the HR Coordinator is on maternity leave and the majority of the staff was let go due to recent financial difficulties. Nevertheless, the HR coordinator left a set of procedures that could easily be used to hire and maintain a motivated and prepared team. These include the process of hiring a candidate (from job posting on radios and newspapers to the final interviews), providing scholarships or study leaves and even the process for firing employees.

For daily activities, only the employees mentioned in the Management section are present. However, KSF relies on three other Loan Officers and forty-nine community animators to reach their clients. Given the current financial situation, KSF had to cut salaries and currently offers staff an allowance that varies depending on monthly results. This places the institution in a difficult situation, especially with regards to attracting and retaining talent. It is well known by management that one of the main threats to MFIs, such as KSF, is losing trained employees to larger institutions or even formal banks. Despite being aware of employee attrition, KSF does not have data on staff-turnover nor the reason for which they left.

Despite having a clear set of procedures for employee evaluation, there was no evidence on how employees are evaluated. According to the CEO, high performing employees receive a bonus based on the clients they bring in and the quality of the loans given. However, this type of situation is not documented.

Recommendations:

KSF is compelled – by its social mission and by the necessity of reducing costs through economies of scale – to survive and expand. To manage growth wisely, standardization of procedures has to be detailed. The first step to be developed within a six-month period is to develop manuals with detailed descriptions of employees' tasks and clear objectives on which employees will be evaluated and held accountable.

Set a yearly evaluation process: In order to evaluate the overall performance of the company, HR must set a formal evaluation process. Preferably, employees – including the CEO – must be evaluated by their peers, superiors and subordinates. The department should be responsible for documentation and acting based on the results.

Describe the specific responsibilities of each position in the company: Currently the manual is not clear on the activities each employee must perform. It must be ensured that staff understand their tasks and see their role in serving customers through processes.

Implement measurable departmental and individual's goals: By doing so and providing bonuses when success is achieved, KSF will make sure their employees are motivated and are working as a team to reach their mission.

2.5 Management Information Systems

Most of KSF's data is still in a physical form (e.g. accounting books, contracts, official documents) and the institution uses the information produced with Excel to create their financial statements. However, the quality of these reports is low which will be detailed in the internal controls and financial analysis section. KSF forwards this financial information to their auditor and posts them publicly on their website. KSF's operations, especially with the two other branches, exceed what their current system can handle as the excel files of the two branches must be consolidated and communication challenges prevents periodical merges.

KSF collects information and translates it into an MIS through several steps. Clients and their community manager meet once a week to process the payments collection. Each client is provided with a little book to manually track their loan and savings. When the credit officer comes to collect the money, both cross-check that the amounts correspond to the loan repayment schedule. The loan officer then transfers the money, via an MTN kiosk, to KSF's bank account. KSF then receives a text message with the notification of the transfer. An employee will then call the concerned clients to confirm that the amount deposited corresponds to the money given to the loan officer. This information is then translated in an entry in the excel file.

KSF's MIS is not only unable to incorporate new products but it also currently does not allow relevant information to flow to different levels of the MFI. Furthermore, the lack of accuracy of the entries in financial statements reveals that the institution may be losing information at some stages of their processes and/or making human errors when consolidating information amongst the different branches. To counter this, KSF expects to implement MIFOS, a specific microfinance software and have it operational by the end of the year. It also mandated an informatic NGO to digitalize their physical files to Excel. According to KSF, this will also be done by the end of the year.

KSF states that they are aware of a missed payment the same day. However, given the numbers of clients (2,000-2,200) and the lack of logistics of the foundation, it is not probable that this daily control can be achieved. As the credit officer goes to clients on a weekly basis, it can be assumed that they are aware of missed payments, if any, by the end of each week. From a financial reporting point of view, information is diffused relatively effectively from branches to the central office, with weekly collections of the branch books to centralize them. However, the organization does not, to the best of the team's knowledge, use the core information to create supervisory and compliance reports or client and market intelligence. Accounting ledgers are created, but as was explained previously, do not contain intelligible information.

While there is consistency between the MIS and the electronic and paper files, the issue clearly falls with inputting data. The interaction between the MIS, the general ledger and the portfolio of loans will be discussed in further detail in the financial analysis and portfolio quality sections respectively, but overall, the portfolio system is not integrated with the accounting system. Portfolio growth cannot be explained by the cash flow statement or any accounting entry. Overall, the MIS system of KSF does not meet basic standards required for a fully operational MFI. The current MIS system fails to provide an accurate picture of both the number of client and the loan portfolio and thus fails to support operations. Also, given the lack of transparency (secured Excel files) and the lack of a cloud system (e.g. Dropbox), it would be difficult for anyone joining KSF to understand the big picture of the foundation. This does not help KSF to achieve its goal to get the license from the Bank of Ghana and hinders their chances in attracting investors.

Recommendations:

Ensure timely updates for portfolio information: Once the portfolio has been re-evaluated, it would benefit the organization to ensure credit officers and branch managers update their portfolio information using the group data they have accumulated over a week of collections. Each monthly change to the portfolio should be recorded in the central accounts to accurately reflect the portfolio value. This process would also enable KSF to check missed payments on a daily basis without having to ask the client directly.

Have a backup for their IT and an update anti-virus: KSF does not use a backup system for the files that are on their computers. Implementing an MIS such as MIFOS would solve this issue. In the meantime, installing a cloud system, such as Dropbox, and an anti-virus program would help them to secure their data. Moreover, computers are locked in the CEO's office with no alarm system (which is a requirement to get the license by the BoG). KSF should therefore buy a non-inflammable safe to store laptops and other valuable assets.

Implement MIFOS as soon as possible: While KSF expresses its intention to implement MIFOS by the end of the year, it could be functional in a couple of months given the extensive online support for the program. The MIFOS's website and helpline is well designed to help KSF use this program as soon as possible. It is essential that the staff acquires the necessary knowledge to use this tool.

Create a uniform reporting system across the two branches: In order to avoid any discrepancies with data, a uniform reporting system should be implemented. A cloud system such as Dropbox could help them to consolidate data while MIFOS is still being installed.

Generate templates and make them available to anyone in the foundation: Templates for data collection and presentations should be standardized and made available to everyone in the organisation. This will enable KSF to save time and to avoid errors, especially when estimating their portfolio of loans.

Streamlined spreadsheets: Excel spreadsheet should be streamlined in order to avoid data duplication. It should also be established who can access and modify the files so that the data still is accurate. The foundation should not only use “hard cells” but connect the excel files between each other to avoid errors and to simply gain time.

Fix accounting and data management deficiencies: Accounting errors make it difficult to read the financial statements of the company and to estimate the number of clients, for example. Data management should be precise and not duplicated (thanks to the above-mentioned templates) to ensure smooth operations.

All the foundation’s files should be documented: KSF’s files should be documented so that it facilitates the consolidation between the branches. It is also useful when a new employee wants to understand how KSF’s operations.

2.6 Internal Controls

Given the size of the foundation, it is not surprising that there is a lack of internal controls. A key issue with the foundation is that they do not have an internal control manual for several key aspects of their business such as:

- Job descriptions within the institution
- Payment management
- Budget planning

KSF does have an operational manual for other areas (see below for the topics that are mentioned in this manual) but most of the policies date from 2003 and have not been reviewed since then.

Availability of the operations manual: The absence of a manual for several fields makes it difficult to get new staff acquainted with their daily tasks. This is especially an issue when considering KSF’s high attrition rate. Lack of an operations manual could lead to misinterpretations and inconsistencies notably related to accounting principles used for the acquisition of fixed assets. As the foundation does not have a system such as Dropbox, the operation manual is not widely available to all employees of KSF and is not automatically distributed to new employees.

Financial operations: KSF has written policy relating to credit and savings but some processes are not documented well enough especially when it comes to loans granted to Board Members.

Procurement: KSF has a hiring, dismissal, promotion and leave policy although it does not have a manual with job descriptions. Employees should not have any criminal record and employees cannot borrow from or lend money to another member or staff. The Finance committee is responsible for recommending actual disbursement of purchases. The actual purchase needs to be authorized by the Board. KSF has a policy regarding the depreciation of fixed assets but the determination of rates is not clear enough.

Treasury: Total cash on hand and cash in other FNGO’s and institutions cannot be less than 8% of the FNGO’s total deposit liabilities. However, this has not been respected for many years according to performed calculations and the foundation does not have a plan B for these kinds of situations.

Financial management: The operational manual states that the loans granted to the staff should be budgeted and requires approval by the Board. KSF was unable to show their budget plan when asked.

Other applicable areas: KSF states in their operating manual that is should be under guard 24/7 but they are not insured against fire or theft. Computers and valuable assets are simply locked in the CEO’s office.

Fraud Compliance: The foundation mentioned it never had to deal with a fraud from a client. The community system described in “Social Performance” also helps to avoid this kind of issue because of the social pressure.

There are no special procedures regarding employee fraud. KSF however checks the criminal record of both employees and board members and does have a clear promotion procedure. Management stated that KSF has not been a victim of employee fraud since its foundation. Although it is stated in the operational manual that loans between employees are strictly forbidden, there is not particular mention of procedures to detect employee fraud.

KSF has two other branches in addition to its headquarter in Accra. Management claims that branches send, on a daily basis, an excel file with the branch operations. However, little to no evidence of this was seen during the three-day visit. Management was only able to produce information for a fraction of the branches' costs. Collections also appeared to be monitored using the confirmation text messages sent after depositing money in a mobile pay station. It is not certain if KSF has any procedures for un-cleared balances.

Recommendations:

Improve the internal controls manual and its supervision: It would be advisable that the organization document all the steps and controls regarding operational procedures. The external auditor, for example, should evaluate controls on a periodic basis, as the size of the institution does not allow for an internal audit. The manuals should outline the financial internal controls over credit risk, liquidity and interest rates. Within operational risk, it should include indicators to measure transactional risk (negligent for example) and risk of fraud. Also, the Board Members should review internal controls each year, as well as interest rates. The staff and the management must receive a copy of the operations manual. This would enable the creation of a more structured and informed work environment, and would provide the MFI with the opportunity to review its policies and make changes for improvement.

Restate certain processes: when a Board Member applies for a credit, this application should not be reviewed first by the CEO as there is a clear bias. The application should be sent to a credit officer on a confidential basis. Credit officers should rotate so that they are not biased towards the clients. The rotation period (e.g. one year) should be clearly stated in the operational manual. Also, a separate fixed asset register, containing information of various additions, date of purchase, amount paid, and their use should be maintained for better control over fixed assets.

Have a clear cash on hand policy: KSF does have a cash on hand policy (8 % of liabilities) but this has been constantly breached which demonstrates a lack of supervision when it comes to cash. KSF should establish a 13-week cash flow to know the state of their liquidity. Also, a clear plan B should be mentioned should this 8% threshold not be respected. KSF should also open a separate escrow-account as required by the BoG.

Establish clear guidelines to deal with frauds and theft: KSF should write a policy that includes what comprises fraudulent acts, the reporting mechanism, penalties and legal actions to be considered. The FNGO could also implement a measure of internal control where one field officer accompanies another field officer on his field visits so that the clients get to know more officers. Eventually, the MFI can establish a field officer rotation policy, which will help greatly in preventing occurrences of fraud.

Workplace safety: KSF has a fire extinguisher but its presence should be more clearly indicated. There is no insurance against any externalities such as fire, theft, etc. KSF should contract one as soon as possible as required by the BoG.

2.7 Internal Audit

Due to its size, KSF does not have an internal auditor, which is reasonable for a small firm. Their current focus is on improving the MIS and data collection, to produce financial data. As KSF grows however, they should implement an internal audit.

Recommendations:

Establish internal audit: KSF does not have internal audit and has no concrete plan to implement one. Currently, hiring an internal auditor would not be an efficient use of resources, yet it would be beneficial if the external auditor could carry out an internal audit every three years. This could help highlight control areas where improvements are needed, and possible recommendations.

2.8 External Audit

Since 2002, KSF's statements are audited by K. Kye & Associates, a chartered accountant based in Accra. Future audit plans regarding the rotation of the auditor are currently unknown. The external audit conducted by Kye Associates fails to accurately assess KSF's financial picture. Kye Associates has signed off KSF's statements as accurate despite many glaring errors and significant issues which make the financial statements impractical for any analysis. The annually issued financial statements have glaring issues including the balance sheet not balancing, double counting revenues and missing accounts (see the section on financial analysis for more details). Despite these errors, the auditor has issued a letter stating that the statements are a fair and accurate representation of the MFI. Furthermore, discussions with management have shown that Kye Associates failed to bring up these issues during the auditing process or has suggested any recommendations in order to improve the quality of the statements.

Conversations with management and the board show that their knowledge of accounting and the financials of KSF is insufficient to manage an auditing process. While management has agreed that the financial statements of KSF contain errors, they have been unable to point out where these come from. Furthermore, information regarding many of KSF's transactions are unavailable in the main office which makes a proper audit process difficult as the majority of the entries into the statements cannot be double checked. Management attempts to follow accrual based accounting principles but fails in this regard.

Many of the issues in the financial statements suggest that management does not fully understand accounting standards principles. Issues with revenue recognition, non-cash accounting and double counting are some of the errors found in KSF's statements and which management fails to recognize. Overall, it is not clear if Kye Associates is familiar with the risks associated with MFIs. Currently the failure to address the many issues on KSF's financial statements suggest that the auditor lacks experience with working with MFIs. While Kye Associates is a chartered accountant and recognized by the Ghana's Institute of Chartered Accountants, the failure to recognize or address the accounting issues of KSF puts their qualification in question. It is highly suggested that KSF choose a new auditor willing to point out accounting flaws and recommendations on how to fix them.

Recommendations:

Change its external auditor: Not only has KSF had the same auditor for many years, Kye associates actions suggest that they do not have the qualifications or unwilling to accurately assess KSF's financial reports. KSF should seek out a new external auditor who is willing to point out accounting issues and is willing to help the MFI establish an internal audit process. This would greatly benefit KSF and help them achieve the requirements for the BoG license and attract potential investors.

2.9 Regulation and Supervision

KSF is under prudential regulatory supervision as is subject to the oversight of the BoG. The institution is currently applying to become a Tier 3 – Non-bank Financial Institution. A Tier 3 institution in Ghana includes Money Lenders and Non-Deposit taking Financial Non-Governmental organizations. To fulfil the requirements of a Tier 3 Non-Bank Financial Institution, KSF has to commit to a set of rules and principles that are set by the BoG. Currently, there is no interest rate ceiling for MFIs in Ghana that could affect their operations and profitability. The most important piece of regulation that KSF is the Non-Bank Financial Institutions Act, 2008 (Act 673). See Exhibit 2 for a breakdown BoG requirements to get the license and KSF's situation for each of them.

Ghana experienced in the last years several important changes in the microfinance industry, namely with financial NGOs moving from an informal to a formal status with the BoG licensing and supervising them since 2011 (Marco Trombetta, IE). According to Trombetta and al., there are 1,751 licensed microfinance institutions and 3,277 informal ones (all categories together). With microfinance becoming increasingly popular in the 2000s, the government intervened and the BoG created a tier system in 2011 based on MFI's activities and by establishing strict regulations on the tier 1, 2 and 3 (see details in Exhibit 3).

Ghana requires non-deposit taking microfinance institutions to apply prudential regulation. Therefore, MFIs have to comply with mandatory requirements such as capital levels, liquidity management rations etc. FNGOs have therefore to make a transition from an institution with a social goal into an institution considered as a regulated and supervised financial intermediary. There are several difficulties that are particularly relevant to FNGOS (Trombetta and al., 2017):

Stringent capital requirements: FNGOs need to meet the capital requirement imposed by the BoG (GHC 300,000). They have difficulties accessing commercial funding and because they belong to tier 3 institutions, they cannot get this funding from the public. They are therefore financed mainly through equity by the Board members, the founder, or international donors.

Introduction of new business standards: FNGOs now have to create operational plans to have a complete risk management framework. This forces them to invest time, money and efforts in improving the knowledge of their staff, to update their IT-infrastructure, etc. This requirement challenges the business model of FNGOS as cost of operations will increase. Thus, in order to remain profitable, FNGOs will have to apply new conditions to their clients.

Difficulty to find adequate Board Members: In order to qualify for a Board Member position, candidates have to disclose data such as criminal records, sources of income, marital status, etc. This causes trouble for FNGOs that need to have a Board Members with minimum five people.

Actual regulation makes it difficult for FNGOS to improve their tier classification: FNGOs (tier 3) would prefer to directly move toward the tier 1 classification rather than going step by step and reaching the tier 2. Indeed, by becoming a tier 2 institution, they lose their social orientation as they would delegate control to investors and owners that do not always share their values. Unfortunately, moving directly from tier 3 to tier 1 is not an easy task and can be proven extremely difficult for a FNGO with limited financial sources.

The current regulatory environment in Ghana is not friendly to foundations such as KSF because of the stringent capital requirements, the introduction of new business standards and the difficulty to find adequate board members. Also, for a tier 3 institution such as KSF, going to the category 2 is not favourable yet it is hard to be directly promoted to tier 1. While these requirements can improve the operations of many MFIs in Ghana, according to KSF's CEO, the current supervisory body does not help them to achieve this goal. It is mostly AFFIN, an apex body, that gives support to KSF with the application to get the license. The team within the BoG to take care of microfinance issues contains only 10 people and with the numerous MFIs throughout the country, it is difficult for them to provide a special assistance to each of them. The BoG has therefore little contact with MFIs. KSF's CEO regrets the lack of communication between the foundation and the BoG. Moreover, he stated that many MFIs such as KSF are facing massive competition that they do consider as "unfair" and he regrets the lack of support from both BoG and ASSFIN to remedy to this. Despite these obstacles, KSF's CEO states that the foundation is in a good shape to get the license by the end of the year.

Recommendations:

Establish a long-term plan to get the license: Even though KSF mentioned that it could get the license by the end of the year, this is a too optimistic forecast given the numerous requirements they do not meet. In addition to that, KSF does not have an exact plan to get the license of the BoG and is not aware of all the requirements, notably when it comes to the burglary and fire insurance. They should state a clear plan with dates to obtain the license. It is estimated that if KSF puts in the efforts to reconstruct their financial statements, their portfolio of loans and their processes, they could obtain the license within two-three years.

Reorganize their financial statements and the portfolio of loans: a major obstacle to get the license for KSF is that they do not have accurate financial statements. This is paramount for the BoG for several criteria and the lack of accuracy makes it difficult to estimate whether they do comply with certain requirements.

Involve all the Board members in getting the license: when the Board Members have been asked about certain requirements to get the BoG, it was obvious that only the CEO was aware of certain criteria. KSF should involve all the Board Members towards this common goal. This would also foster the foundation towards a clear and achievable goals and build an "enterprise culture" within the foundation.

2.10 Ratings

Rating systems play an important role in financial inclusion globally. Rating agencies select and weigh indicators for companies issuing debt, setting benchmarks for the industry and allowing for factors of comparison amongst Institutions. Providing mechanisms to assess the strengths and weaknesses of financial institutions specialized in serving low income households is very valuable for internal and external stakeholders, since they can measure and understand performance.

Ratings and institutional assessments aim to provide objective analysis of a financial institution and to benchmark that institution on a scale that allows it to be compared with other institutions. They provide objective information on a financial institution, which help potential investors to conduct due diligence. They also increase transparency within the sector, improve institutional performance, and attract investors. The opinion expressed in ratings usually blends both quantitative and qualitative information to provide a clear and deep understanding of the particular institution.[8]

Due to the MFI's lack of reliable data, carrying out a CAMEL rating was not possible. The organization's previous ratings can be found in Exhibit 4.

2.11 External Relationships

KSF deals with many partners, both in the public and in the private area. The most important external relationships are the following ones:

Public area

Government of Ghana: The Government of Ghana plays a key role for MFIs (and therefore KFS) as it is highly involved in the microfinance sector. During 1900-80, it used to be highly involved in subsidizing agricultural credit programmes. In the 1970s, the GoG allowed banks and other institutions to operate on a commercial basis without any official intervention. In 2010, when many MFIs collapsed, the GoG intervened and policy-makers were forced to change their approach and to put in place more stringent requirement in the

[8] http://www.microfinancegateway.org/topics/ratings-and-institutional-assessments

microfinance industry. Because the Government is the policy-maker in the banking and microfinance industry, it highly influences KSF's operations (for more information, please see regulation). The Government's relationships with other States could influence the microfinance industry (notably by attracting foreign investors and donors) and therefore plays a key role in the macro and micro environment.

Bank of Ghana: The Bank of Ghana was established in 1957 thanks to an ordinance passed by the British Parliament, shortly before Ghana's independence. One of the functions of the BoG is to "regulate, supervise and direct the banking and credit system and ensure the smooth operation of the financial sector". It is the institution that gives the licenses to regulate institutions in the microfinance sector and that established a tier system (see regulation). The BoG plays a major role for KSF because this institution's function is to stabilize the currency as well. This has a significant impact when KSF is receiving financial support from abroad, which is often in another currency. A list of the main partners can be found in Exhibit 5.

PRIVATE PARTNERS:

Many of the partners listed on KSF's website are no longer providing support to the foundation. Currently, KSF has a credit balance with three private partners: Social Investment Fund, MiDA and Rhema Consulting. Social Investment Fund has provided KSF cash for micro-finance loans since 2004. RHEMA Consulting Group Ltd (RCG) is a performance based management consultancy based in the UK and enhanced KSF's capital base. MiDA, according to KSF's board members and CEO is the institutions most significant partner. MiDA contacted KSF proactively through the apex body ASSFIN. MiDA provided the foundation with the cash to buy assets, such as motorbikes, as well as to provide clients with loans.

APEX BODIES:

GHAMFIN: KSF is member of this informal network of institutions and individuals whose aim is to support the microfinance industry in Ghana. To date, they number 2,287 members and their major contractors are the Government of Ghana, the World Bank and USAID amongst others. GHAMFIN raises awareness amongst its members by helping MFIs build their profile offering the possibility to influence the microfinance industry in Ghana. GHAMFIN's aim is to become a clearinghouse for data and information in the market.

ASSFIN: KSF is member of this association whose vision is to be "the desired Apex and regulatory body" for FNGOs in Ghana. They represent the interest of FNGOs in Ghana and to serve as a link between them, GHAMFIN, Government Agencies and Departments, Development Partners, the Private Sector and other agencies.

As mentioned above, KSF is member of ASSFIN and generally has a positive opinion on their mutual relation. This apex body is the voice of the microfinance industry in Ghana and provides its members with networking opportunities. When asked about negative aspects about this collaboration, KSF states that it wished ASSFIN would go further to represent MFIs. Indeed, it states that they are facing massive competition from actors that "are not fair to clients" and that ASSFIN should report them on their website.

In addition to networking opportunities, ASSFIN is currently helping KSF to obtain the BoG license notably by providing advice on how to meet the requirements such as those relating to the financial statements.

ASSFIN and GHAMFIN provide KSF with valuable inputs. As mentioned earlier, ASSFIN provides KSF with networking opportunities. KSF participated to several workshops organised by ASSFIN on topics such as regulations and social performance assessment. GHAMFIN provides the foundation with valuable reports on the microfinance industry in Ghana and therefore helps the foundation to monitor its strategy and to assess the environment. This apex body also supports MFIs by facilitating workshops for its members. These two apex bodies represent the voice of Ghanaian MFIs and therefore provides a link between the supervisor, BoG, and the Ghanaian microfinance industry.

Recommendations

Establish clear and accurate financial statements to attract investors: It is likely that KSF has issues attracting investors because of their inaccurate financial statements. Should they reconstruct their accounting files and loan portfolio, KSF would probably be better prepared to attract new investors – both foreign and local.

Establish a long-term relationship with partners: KSF is taking part in many networking events and mingling with potential investors and MFIs is a positive point for the foundation. However, they should provide these partners with clear feedback how the money has been used in order to foster a long-term relationship that could encourage investors to reinvest in KSF.

Update their list of actual partners on their website: KSF lists prestigious partners such as the World Bank on their website. However, the last time this partner provided them with supports was in 2003. KSF should update this list and clearly state how partners help them on a daily basis.

3.0 Financial Viability and Risk Management

This section allows to analyse in detail the institution's financial performance using financial ratio analysis or qualitative analysis of the Financial Statements among other methods. It determines to what extent the institution is financially viable and includes recommendations on how it could further improve. This chapter includes three main parts in its main body: Financial Statement analysis, Asset Liability Management and Risk Analysis.

3.1 General Overview

It is difficult to assess the profitability and efficiency of KSF as the current state of their financial statements makes it difficult to extract sound conclusions. Issues with KSF's accounting policies have resulted in widespread errors and lack of available information makes it impossible to repair these issues. This section as such, will focus on highlighting some of the more glaring issues rather than analysing the institution's financial viability. Discussions with management show that KSF is not profit-oriented. Donations have had an increasing role in supporting operations such that half of the institution´s reported revenue is from subscriber´s investments (donations). While not clear from the financial statements, management has stated that the MFI requires these donations in order to operate. If previous years' figures are accurate, there is a significant step backward for the institution as subscriber's investment has only played a small role in 2012.

Table 2: Reported Revenue Breakdown by Percentages

YEAR	2016	2015	2014	2013	2012
DISBURSEMENTS	43.55%	52.32%	54.41%	69.99%	77.17%
SUBSCRIBERS' INVESTMENT	55.13%	46.34%	44.27%	28.45%	10.15%

KSF's current financial statements makes it impossible to do any meaningful financial analysis. It is for this reason that it is highly suggested that KSF fix their accounting issues. Financial analysis will allow for the identification of issues within the institution and can reveal potential solutions. It will also provide a useful monitor to key issues KSF is worried about in order to avoid significant issues.

3.2 Financial Statements

KSF's financial statements and accounting policies are a key issue which needs to be addressed. Currently, KSF's financial statements are unable to represent and provide a glimpse into the performance of the institution which has several implications. Firstly, obtaining more funding, whether through loans from a bank or from new investors, becomes more difficult as investors will be unable to assess the operations of KSF. Secondly, the condition of the statements makes it impossible to analyse the institution in order to identify areas of concern and of need of improvement. Revenue recognition issues has led to higher reported operating revenue than in reality. A significant portion (around 50%) of KSF's reported revenue are subscriber and director donations. Removing these from the income statement shows that KSF's revenue is in decline. KSF's income statement also shows evidence of double counting resulting in inflated revenue and net income numbers. This is likely why management claims that there are problems in the company despite high income growth.

Table 3: KSF Revenues and Growth from 2012-2016

YEAR	2016	2015	2014	2013	2012
DISBURSEMENTS	151 423	180 400	190 631	193 023	136 014
GROWTH	-16.06%	-5.37%	-1.24%	41.91%	-

The balance sheet similarly shows major issues. Most importantly, it does not balance which means that accounts are either incorrectly calculated, missing or both. This has severe repercussions in asset-liability management as there is no information available regarding rates and durations of not only liabilities, but also the institution's current loan portfolio. KSF's accounting policies require serious overhaul. The institution is attempting to use an accrual accounting system which is a step in the right direction however there are still several issues which need to be addressed before their accounting policies will be sufficient to produce respectable financial statements.

Documentation of the institution's transactions are a key area which needs improvements. While KSF keeps an active journal, it appears to only record cash expenses and thus is insufficient for accrual based accounting needs. Entries recording loan collections and disbursements, equity injections as well as other non-cash transactions could not be found.

3.2.1 Income Statement Analysis

INCOME

While KSF's income statement shows revenue stagnating for the past five years, growth has in reality been negative. KSF has issues with revenue recognition and of the revenue sources listed on the income statement, only disbursements can be considered as revenue. BDS Fees (Business Development Services) are instances when KSF is able to use facilities for free that they would otherwise have paid for. Examples include the fee they would have paid to use town halls or rent for chairs and tables for group client meetings. KSF would then consider the cost they would have had to pay considered as revenue. However, as these facilities were not provided to KSF as payment for a service, these should not be counted as revenue but rather as zero cost. Subscriber's investment is a more serious concern as it makes up more than half of total revenue as of 2016. While part of subscriber's investment is made up of income from investments, most of it consists of contributions from either directors or 3rd party individuals (subscribers). As such, it is more accurate to consider these investments as equity contributions or donations rather than income.

As mentioned earlier, these adjustments result in a significant decrease in KSF's actual revenue. From discussions with management, a potential cause of this decrease is the lack of the license from the BoG. This has led to issues with both collecting payments and obtaining new clients. Current and potential customers are concerned that KSF is unlicensed which has led to an increase in delinquencies and difficulties in attracting new customers. The situation has only been exacerbated by increased competition from new MFIs in the region. While KSF shows history and leadership in certain areas, this unfortunately is not enough for growing or even maintaining revenue.

EXPENSES

KSF's expenses over the past five years shows dramatic changes financial and administrative expenses were both reported to have had significant drops after 2014. The drop in financial expenses were driven by a decrease in loan loss provisions. Management explained that rather than a sudden drop, 2012 to 2014 should be considered as exceptional years where, due to the creation of the license by the BoG, delinquencies increased and the situation normalized in 2015. Regardless, the decision shown by management to drop provisions by around 80% is far too sudden and highly questionable.

Table 4: Expense Growth

YEAR	2016	2015	2014	2013	2012
TOTAL EXPENSE GROWTH	-14.55%	-47.84%	30.53%	-3.11%	-
FINANCIAL EXPENSES GROWTH	-3.72%	-51.66%	14.02%	39.32%	-
ADMINISTRATIVE EXPENSES GROWTH	-30.48%	-43.68%	54.95%	-33.21%	-
NET OPERATING MARGIN	75.44%	71.01%	45.31%	46.78%	19.33%

Administrative expenses have shown a similar decrease after 2014 driven mostly by a drop in personnel expenses. This drop, as explained by management, is from the inability of KSF to pay its employees, which is highly worrying, especially as worker attrition is a key issue highlighted by the board. The changes in costs however highlight the lack of information KSF provides throughout their financial statements. The large, sudden and unexplained drops in costs after 2014 can be confusing and unattractive to investors especially as these drops are what have been driving net income. Such changes should be highlighted and explained in the annual report either through a management review at the beginning or, at the very least, in the notes.

NET INCOME

The importance of good record keeping and proper journal entries needs to be stressed here. KSF's income statement reports positive earnings growth but this value is not represented in their cash and as such, it seems not all of KSF's costs are properly recorded. As mentioned earlier, proper accounting policies begin with documentation and are followed by journal and ledger entries before the financial statements are created. KSF may also be double counting certain revenue items under other income. Non-operating income in the income statement is composed of BDS fees and director's subscription which are exactly the same as the values found in the revenue section. This results in an inflated net income value which contributes to the large imbalance found in the balance sheet and the cash flow statement. Again, proper journal keeping under the double-entry method should eliminate double counting.

3.2.2 Balance Sheet Analysis

ASSETS

KSF's equities and liabilities exceed their assets by around GH₵ 1.5 million. While part of this imbalance can be attributed to net income inflation as mentioned above, there is evidence to suggest that some accounts have been incorrectly calculated or are missing. The more glaring issues in the balance sheet have been highlighted in this report but unfortunately not all missing accounts and information can be filled out due to lack of information. KSF's portfolio and loan loss provisions are likely to be incorrectly calculated. This will be expanded on in the section on loan portfolios. KSF's fixed assets also needs to be updated, corrected and clarified. For example, the goodwill mentioned in fixed assets refers to a plot of land donated to KSF. This should be referred to as land as to avoid confusion. Also, company cars are not listed in the balance sheet while the company's motorcycles, which are no longer in use, are still accounted for. It is suggested that motorcycles be moved to a separate account marked assets for disposal as they are no longer needed for operations. At the same time, depreciation of these vehicles and other assets needs to be clarified. It is unclear from the statements, and through the discussions with management, on how assets are amortized if they are at all. KSF needs to explicitly state whether assets are marked to market or depreciated.

Rented properties, which management refers to as leaseholds, needs to have the terms of the lease clarified. It is unclear whether KSF considers these properties as financial leases or operating leases as the properties are listed in both the balance sheet (as leaseholds) and the income statement (as rent). KSF needs to determine whether these leases are financial or operating. Due to changes in IFRS regulations, KSF should account for their property as financial leases. However, if KSF's current rent contracts are 12 months or shorter, it is recommended that these are accounted for as operational leases as this is less complex.

LIABILITIES

On the liability side, a large omission is the collaterals/deposits for KSF's loans. Even if these deposits are in an escrow account, they must be listed clearly on the balance sheet. Another missing entry is the liability side of their lease. As noted above, if KSF wants to list their property as a financial lease, this should be accompanied by a liability which represents the contract. By failing to properly list its liabilities, KSF cannot accurately measure their leverage and thus their financial risk. As a lending institution, KSF needs to carefully monitor their leverage as this is the main driver of their returns. Too much leverage however, will add to the risks which MFIs are already associated with. Without an accurate or any measure of leverage however, it will be difficult to gage and react to changes in this risk. KSF also needs to release more information regarding their long-term liabilities. Information regarding the rates or terms of KSF loans are unavailable in the financial statements and were only found in a due diligence report sent to MikroKapital. Without easy access to information regarding rates and duration, it is difficult to assess and comment on KSF's asset liability management discouraging potential investors.

EQUITY

Errors in the calculation of net income have made it difficult to judge how accurate is the value of KSF's balance sheet equity. For example, double counting and potential errors in cost calculations means that the equity value quoted is most likely highly inflated. Furthermore, issues with revenue recognition means that a significant portion of KSF's reserves (retained earnings) are in fact contributions from investors. There is also reason to believe that the subscriber's capital is underrepresented. Conversations with management have revealed that directors have regularly been injecting capital into the business in order to sustain operations but these are not shown in the balance sheet. Despite this, it is highly likely that the equity value KSF reports in its balance sheet is much higher than in reality. Overall, it very difficult to adjust KSF's balance sheet in order to make it balance due to the lack of information from past transactions.

3.2.3 Cash Flow Statement Analysis

KSF's cash flow statement, as a result of errors in the income statement and balance sheet, is also incorrect. However, there are still clear issues with the current structure of the cash flow statement which needs to be corrected. Errors in the statement include subtracting loans loss provisions rather than adding it. As provisions are non-cash expenses, these should be added back to the statement similar to depreciation. Subscriber's investments have again been added in as a financing cash flow (noted as director's contribution). The excel model used for the cash flow statement also has issues with several formulas. The final addition of cash flows is incorrect as it does not include cash inflows from financing activities which lowers the actual cash valued received. Interest received from investments is also simply calculated as a percentage of cash flows from operations. While these issues will likely be fixed once KSF shifts to their new information system, it highlights the point that the current staff are lacking in the skills needed to formulate proper financial statements.

Recommendations

Problems in KSF's accounting policies and practices and failure to properly document and record transactions have all contributed to the poor state of KSF's financial statements. This poses serious issues for KSF with monitoring and improving the business and also attracting investors. Due to errors in the statement, a quick quantitative analysis of KSF is not possible. This means that management will lose valuable tools to monitor KSF's operations and financials. Attracting new investors will be highly difficult with the current statements as investors are unable to understand the operations of KSF. The risky nature of the business combined with the fact that analysis of the business is not possible, will mean that most investors will choose other opportunities or demand a higher return increasing KSF's cost of capital.

New Accounting Practices: It is recommended that KSF completely overhaul their accounting practices. While KSF should ideally hire a dedicated accountant to monitor and manage their accounts, this is not possible in the short-term and should instead be considered a long-term solution. In the meantime, KSF can instead work on properly managing their ledger. The ledger should not just record the cash expenses of the business but include all transactions. Each entry should affect at least two accounts with all debits equalling credits. Doing this will ensure that the balance sheet will balance and avoid double counting entries. At the same time, KSF should ensure that they keep a track of all documentation regarding transactions such as receipts, invoices and bank statements. Source documents can be used to verify the details and ensure the accuracy of recorded transactions.

Reconstruct Balance Sheet: KSF will also need to adjust the entries on their balance sheet. While the income and cash flow statements only show what happens for the fiscal year, the balance sheet builds upon previous years and as such must be reformulated. This will involve valuing all of KSF's assets and liabilities including those currently not on the balance sheet. These include deposits held as collateral and fixed assets such as cars. The difference between KSF's assets and liabilities is the new equity value of the institution. It is very likely that KSF's equity will need to be written down and equity holders can face a significant loss. Management must explain that this write-down is necessary to ensure proper future governance of the institution.

3.3 Profitability

KSF follows a three-step approach to determine their interest rate:

1. Identification of sources of funds
2. Determination of interest rate on each source
3. Weighting the interest rate with the amount of credit sources to obtain the implicit interest rate.

Table 5: Approximate calculation of implied interest rate for 2017:

CREDIT SOURCING INSTITUTION	% INTEREST RATE	AMOUNT OF CREDIT OUTSTANDING	CREDIT SOURCES /INTEREST RATE
SOCIAL INVESTMENT FUND (SIF)	15% (median of the range)	GHC 187 130	GHC 1 247 533.3
MIDA-ACP	15%	GHC 207 850	GHC 1 385 666.7
RHEMA CONSULTING LTD	27% (median of the range)	GHC 18 000	GHC 66 666.7
TOTAL	**15.29%**	**GHC 412 980**	**GHC 2 699 866.9**

The formula for the weighted-average interest approach is as follows:

$$Interest = \frac{\sum interest\ rate * \ amount\ of\ credit\ outstanding}{\sum credit\ outstanding} = \frac{15\% * 187\ 130 + 15\% * 207\ 850 + 27\% * 18\ 000}{412\ 980} = 15.29\%$$

Following preliminary calculation, KSF adds a 3% premium on weighted-average interest and a 2% finder's fee, arriving at 16.06% as their determined interest rate. However, other factors are also considered such as: donor funds obtained during the year, credit assistance obtained during the year, base rate of the BoG, lending rates of particular institutions, insurance premiums, inflationary trends, the value of cedi, etc. The final interest rate is determined by all of these factors. According to internal documents, the interest rate for retail clients varies from 20% to 40%, contributing to the interest income.

KSF has control over product pricing – the sources of funds are below the implied interest rate. Interest rates are set following the analysis of a client's application and its subsequent approval by the credit committee. Although clients are not aware of the actual interest rates KSF is charging, they claim that they are lower than the rates of rival firms. Until 5 years ago, KSF enjoyed low competition from rival institutions. Even though licensing creates an issue for new organizations willing to enter the market- (i.e. organizations operating before the licensing regime are allowed to continue operations, while newly established ones require a license from the BoG), the level of competition has significantly increased. However, even with the increased competition, KSF is able to retain their clients due to their established reputation, personalized approach and availability of non-financial services. These factors allow KSF to keep control over the pricing.

3.4 Credit Risk

KSF is aware of the main external risks affecting the business – regulatory changes arising from the changes of the political parties and competition. However, there is a greater spectrum of risks that need to be discussed and monitored:

Table 6: Current Risks Facing KSF

Financial Risks	Operational Risks	Strategic Risks
Credit risks Transaction Portfolio Product development Interest rate	**Transaction risks** Human capacity IT	**Governance risks** Ineffective oversight Management quality Mission drift Strategy
Liquidity risks Profitability Liquidity Lack of funding	**Fraud/integrity risks** Staff perpetrated fraud	**Reputational risks** Undeliverable social expectations Transparency
Legal risks Failure to comply with regulation	**External business risks** Competition Macroeconomic trends Political interference	

Best practices of risk management in microfinance that address the issues above are summarized below:

Table 7: Best Practices Regarding Risks

Financial Risks	Operational Risks	Strategic Risks
Credit risks Engaging in group lending Building a strong relationship with the client Verifying each and every borrower *Standardizing products* *Regular reporting of key results*	**Transaction risks** Collecting in group meetings Conducting periodic review of clients' passbooks *Computerized record keeping*	**Governance risks** Ensuring a client service focus Fostering close relationships with clients
Liquidity risks *Standardizing products* *Establishing strict repayment timelines*	**Fraud/integrity risks** *Rotating loan officers every six months* Disbursing loans only from the branch office Peer based cross-checking *Cashbook duty rotation*	**Reputational risks** Disclose the interest rate and the deposits to the clients
Legal risks *Internal and external audits*	**External business risks** Keeping track of the economic outlook, including legal, fiscal, political changes	

4.0 PRODUCTS[9]

The organization uses its deep community ties and relationships with local government officials to determine and anticipate their current and potential clients' future needs, both financial and non-financial. Once the groups in need are identified, the organization then looks to find partners which will fund complementary both financial and non-financial services, ranging from business training to AIDs prevention education. The result of this a broad portfolio of personalised products that in general combine sufficiently broad appeal with a tailored suite of services which make them unique in the Ghanaian market.

As of yet, the organization is focused on pure business lending, with a minimal savings program, though it is, with varying degrees of success, attempting to pilot micro-insurance and other services as its capabilities and circumstances allow. The main factor constraining these expansions is the sourcing of external funding for projects. This leads to an agile system to launch new products sorely needed by the community, such as the Green Energy loans which provided relief during the energy crisis in the early 2010s. The other face of this is that projects are extremely vulnerable to funding, with some left abandoned when funding dries up. In both strategy and delivery, the organization strives to keep pace with its clients evolving needs, something which the distinct project format of its offerings clearly enables. Interviews with clients showed that this was a big appeal, and had provided significant benefits. Product maintenance and evaluation tools remain an important weakness which the organization is looking to remedy.

The organization provides both group and individual microfinance commercial loans, through the organization's own TEACH strategy, aimed at groups of 25-30 entrepreneurs. The TEACH strategy segregates customers into functional groups such as processing and marketing, requiring no collateral and facilitating a minimum weekly savings. The organization also provides its clients with training and its partners will introduce it to new technologies and practices. Their other products include special loans for salaried people and specifically structured loans in partnership with international organizations. Over 98% of the organizations products are provided to women, this is common in microfinance institution and is consistent with the organization's principle of reaching groups that have typically lacked access to credit.

Product Breakdown: The organization has undertaken many projects to provide financial services using the TEACH strategy, currently its two main ongoing projects:

> **SIKA ROSE:** Started in 2004, and financed with a Revolving Loan Fund from the Social Investment Fund (Managed by ARB Apex Bank) aimed at aiding small enterprises looking to improve their agricultural produce marketing. The program also received logistical aid from the Rural Financial Services Project (part of the Ministry of Finance) and training by Freedom from Hunger Ghana (also part of the RFSP).
>
> **EXTRA MILE:** Started in 2006, this project began enabling individuals to directly fund loans to clients via a microfinance website managed by KIVA Microfunds, a US based lending facilitator. After its initial success, the project received additional funding from MASLOC, Ghana Commercial Bank, and EB ACCION, and was reoriented towards agricultural loans for livestock production.

The organization also has smaller projects that involve collaborating with other organizations to provide financial services as part of a larger package:

> **AGAPE:** Started in 2005 and aimed to support externally displaced persons in the informal economy of Ghana, it received funding in the form of revolving capital loans from the International Alliance of Women (TIAW), a micro-enterprise development organization based in Canada.

[9] Filos rating/ The New Microfinance Handbook, J Ledgerwood - 2013.

GREEN ENERGING LOANS: Born as a partnership with Energy in Common and Impact Energies, New York and Australian based non-profits, to promote clean energy in an area of the country where obtaining energy became nearly impossible for many rural communities.

HIGHER HEIGHTS: This project aims to implement an agricultural value chaining financing program in cooperation with 4 Farmer Based Organizations in 3 communities in the Yilo Krobo District. These loans are typically larger than the organization's other projects and are meant for clients that have proved themselves to reliable.

STARTER LOANS: With initial funding provided by Rhema Consulting Corporation, salary advance type loans were provided to government employees for purposes such as education or the purchase of motor vehicles. Can take the form of advances, short term, or salary loans, which are longer term. This project stalled after the organization failed to obtain funding from MikroKapital.

MOONLITE: Started in 2012, this project aimed to build on the savings habit of clients via a text and pay process using mobile phones. Vodafone, the organization's partner, has provided 25 pieces of mobile phones to be provided as part as a lending package. Management of this program has encountered issues, and has stalled.

Most loans, can be provided to either individuals or groups, though typically the latter. The exceptions are Higher Heights, which are always provided to a collective, and Starter Loans, which are aimed at individuals. The typical group has between 25-30 people all participating in the same subcategory of loan, it is not permitted for an individual to belong to multiple groups at once. Though offered the same products, it should be noted Cocoa farmers apply for loans through a streamlined process since the production of cocoa is vital to the country's economy. Finally, the organization also provides 2 limited types of loans to specific individuals:

Directors Loans: Directors are entitled to participate in many of the loans provided by the organization such as personal loans, salary loans, commercial loans, agricultural loans, etc… These loans must meet the same criteria as loans issued to clients.

Staff Loans: Staff are entitled to receive credit for the following purposes: personal loans, including rent advance, marriage, education, medical expenses, funeral expenses and furniture purchase, housing loans, including the purchase and renovations, and transport loans, including the purchase motor vehicles and bicycles.

Below are some details summarizing the known or estimated data about the products and the portfolio, it should be noted that portfolio totals in the two tables do not match because of adjustments to remove double counting. The organization was found to be including GHC 584,286 in loans from the Teach Projects 1,2,3, which had been phased out between 2003 and 2005. The validity of this adjustment was verified by calculating the effective interest rate based on reported interest income. The result was 10.1%, still far below the interest rate the organization charges, but without more information it is impossible to further adjust the portfolio. Issues of portfolio measurement and possible solutions will be discussed in detail in the Portfolio Quality section.

Client figures were found to be cumulatively recorded – it would be impossible for a staff of 46 to meet with over 10,000 clients on a weekly basis. The active number of clients was estimated to be between 2200-3200 based on the organization's staff, and the typical group size. Client numbers were estimated on average loan sizes and reported portfolios and do not reflect up-to date figures. All figures in GHC.

Table 8: Portfolio Breakdown by Age

PORTFOLIO AT RISK	DEC-14	DEC-15	DEC-16
RESCHEDULED AGING STATUS	Gross Loans	Gross Loans	Gross Loans
CURRENT LOANS	1,691,327	1,596,576	1,396,576
RESCHEDULED LOANS (CURRENT)	511,909	638,686	518,686
LOANS PAST DUE 1 - 30 DAYS	189,244	122,758	102,758
LOANS PAST DUE 31 - 90 DAYS	35,677	69,125	60,125
LOANS PAST DUE 91 -180 DAYS	20,889	24,563	14,563
LOANS PAST DUE >180 DAYS	7,224	4,563	4,503
LOANS IN LEGAL RECOVERY < 180 DAYS	-	-	-
TOTAL	**2,456,270**	**2,456,270**	**2,097,211**

Table 9: Portfolio Breakdown by Product

PRODUCT	ACTIVE CLIENTS	AMOUNT	% TOTAL LOAN BALANCE	AVERAGE LOAN SIZE	MAXIMUM LOAN SIZE	AVERAGE DURATION TIME	INTEREST RATE	FEES
EXTRA MILE	582	698,586.00	37.3%	1,200.00	1,200.00	12 months	40%	-
SIKA ROSE	2143	642,800.00	34.3%	300.00	1,050.00	6 months	20-25%	-
HIGHER HEIGHTS	273	280,148.00	15.0%	1,025.00	2,052.00	12 months	40%	-
STARTER	70	140,000.00	7.5%	2,000.00	3,000.00	12 months	40%	-
AGAPE	229	40,000.00	2.1%	175.00	250.00	12 months	20%	-
MOONLIGHT	300	37,700.00	2.0%	300.00	500.00	12 months	20%	-
GE LOANS	73	32,750.00	1.7%	450.00	1,000.00	6 months	20%	-
TOTAL	**3670**	**1,871,984.00**		**778.57**	**1,293.14**	**-**	**30%**	-

By far the organization's most important projects are Sika Rose and Extra Mile which account for over 70% of the estimated portfolio. Other projects funded in cooperation with national and international partners, such as Moonlight, Agape, and Green Energy Loans, represent very minor components of the portfolio, and have a limited impact on operations. The organization has shown a history of growth and profitability, though the portfolio seems to have stagnated and in fact likely shrank slightly in 2016. The organization claims to have a repayment rate of 96.5%, but this is a factor of its liberal rescheduling policy. The lack of detailed figures on clients, portfolio size, and profitability, makes assessing the results of each project or the institution overall impossible. Based its own internal reports, the firm has a low retention rate (number not measured), primarily due to the small size of their loans.

The organization is aiming to increase these numbers by providing more funds and training programs, but is yet to carry out a systematic survey of its clients or layout clear plans. The organization has target interest rates for each product, but in practice sets its interest rates based on the availability of funds for, prevailing interest rates of commercial banks, conditions of development partners, administrative cost of credit operations and duration for repayment. Their aim is to set interest rates at the cost of funds, yet recent data suggests that the model for setting interest rates should be revised since their effective interest in 2016 was 23%. This yield is low for any normal typical Ghanaian lending operation. The organization has made some effort to develop clear documentation as to where deposits are stored and ensured that they collect no more than the allowable 10% to ensure they comply with all Tier 3 FNGO regulations, but still has some way to go. Pervasive fraud does not seem to have been an issue for the organization.

Financieros sin Fronteras

The organization seems very attached to the smaller programs, and expends effort to try to find funding to expand these sundry programs, or even develop new ones. On the other hand, its clients are clearly primarily reliant on the larger programs and the core trainings provided under the TEACH Strategy. The organization is efficient at delivering these loan programs through its network of loan officers, and community animators. Clients reported speedy disbursements and the organization's balance sheet shows there is a concerted effort to make to disburse as many loans as possible. The lack of concrete financials makes it impossible to determine the organization's profitability, but their effect on its strategic goals is clearer. The organization's focus on ambitious programs that take them away from their core strengths is likely a drain on the organization's resources and focus. It is imperative for the organization to re-prioritize, and focus on their area of expertise. Their main loan products are appropriate in size, enabling their clients to re-invest effectively in their business, purchasing assets that greatly enhance their productivity. Moreover, their larger than average tenor, a minimum of 6 months, and often yearly for the agricultural loans, addresses the needs of clients which are highly reliant on seasonality for their income. Lower than market interest rates also enable clients that would be shut out of traditional micro finance institutions to access credit, which could, if managed effectively, provide a significant growth source.

Recommendations – Basic Product Development Strategy

Product Analytics to Improve Profitability: It is critical that the organization construct an updated analysis that breaks down the profit contribution of each product (both income and cost), enabling it to focus on its most successful offerings, while scaling back or even eliminating loss-making non-core programs. The organization operates on a thin profitability model, refocusing its resources where they can do the most good, will help them further their mission.

Client Analytics to power Growth: The organization should breakdown its clients' profile by location, length of relationship, industry and gender. This could help KSF develop new products tailored to their most successful clients, helping to build rapport with clients and increasing successful repayments, while also targeting areas for future growth.

Internal Sources of Funding: The organization should aim to power organic growth through its core programs such as Sika Rose, Higher Heights, and Extra Mile, and searching for partners that will enhance the appeal of these products. Projects that have been left in limbo for funding constraints, should be temporarily shelved, under the organization can afford to set up a dedicated group of individuals to look for these opportunities.

It should be stressed that the analytics, and strategies mentioned above will also help potential investors gain an essential insight into the typical client profile of the MFI.

Ethics Code: The organization explicitly mentions its code of ethics in its Policy Manual and employees are instructed in the organization's code of ethics as part of their induction course. A recommendation was made to include it in the community animation manual, but it is yet to happen. However, the group was not provided the code despite asking for it on several occasions. It would behove the organization to publish their ethics code on their website, making it accessible to all their clients and investors. This would help build trust on the organization, and allow it to further its reputation as a leading micro finance institution in Ghana. Moreover, the organization's lack of internal controls detailed in The Institution section of this report, shows enforcement of the code is an impossibility.

Recommendations – Advancing KSF's Mission

Rolling Credit Benefits to Increase Client Retention: Establishing a well-documented procedure for rolling credit benefits could enable KSF to improve client retention by offering successful improved loan features such as extended term lengths and/or larger loan amounts.

Consumer Protection Code: KSF should create a consumer protection code based on the Smart Campaign Principles to protect both clients and the MFI. This would enable the protection and fair treatment of clients in terms of ethical standards, fair product pricing and terms, and data protection. Although KSF has an operations manual that includes guidelines the policy is too brief and general in nature to outline sufficient procedures and policies that better protect and serve clients. The pro-consumer statement will greatly increase potential investor confidence and will result in improved client retention.

High client retention heightens the social impact of the MFI, a satisfied and loyal client will bring in more clients and spread KSF's positive reputation, simultaneously reducing marketing costs. Finally, it is a good indicator of whether the MFI is tailoring product features well to client profiles and signifies to potential investors the level of customer service.

Appropriateness of Products: The organization sees its mission as service for vulnerable groups that operate in the informal sectors of the Ghanaian economy. As such it does not require collateral, but does encourage its clients to save small amounts on a weekly basis to cover their loans, and even grow a savings cushion. Moreover, it requires training in credit management and business development before disbursing any credit, and does not require its clients to be literate. Additionally, other non-financial services such as civic and public health education are provided in cooperation with both governmental and international organizations, with the aim of improving clients' communities. The loans themselves tend to be small (GHC 300 - GHC 1000), though they are scalable upon proven reliability of clients, and their repayment is designed to match the client's business cycle (4-6 months in services and 12-15 in agriculture and salaried employees). All loans were made commission free after 2012. The products that make the up the bulk of the portfolio, most notably Teach, Sika Rose, and Extra Mile, are small sized disbursements with below market interest rates exclusively aimed at poorer clients and accompanied by a series of non-financial products particularly beneficial to society's most vulnerable members; in line with the organization's stated mission.

Strategy and Marketing: The organization's strategy remains unchanged from its founding, to provide almost exclusively business loans (except Starter loans) to small enterprises and individuals for a variety of purposes. Loans are provided from home-based or ambulant business to provide access to more clients, likewise the organization provides doorstep delivery services for women to ensure convenience and safety. Operating hours are longer than typical financial institutions, making the organization's operation compatible with women's business and domestic obligations. All loans require individuals to open a savings account with the organization and in the case of group loans, officers are available to collect these savings weekly. This amount is decided by the client and could be zero.

The organization does not yet offer any additional financial services, though it would like to start rolling out micro-insurance, micro-leasing of equipment and micro-money transfers in 2017 with the cooperation of some partner organizations. The plans remain in their nascent stages. These products could be very helpful in attracting new clients. Still the organization should be wary of creating products that are vulnerable to quick reversals in funding since this can compromise their growth strategy. Programs like Moonlight, or Agape, are potentially successful projects, but their reliance of fickle sources of funding can stall their development. This can leave the organization trying to balance too many competing projects, unable to focus on a single development objective.

The organization's marketing strategy uses a variety of tools, though is primarily based around "word of mouth" referrals from existing clients, who are provided marketing materials when they receive a loan. Interviews with clients indicate that this technique is remarkably successful with an average of 2.2 new clients per existing client over the lifetime of their membership. The other main tool is to invite local officials and community leaders to loan disbursements, which in the case of groups are made in public venues. This gives them the opportunity to witness first-hand the non-financial services that are offered together with the organization's loans, making them likely to recommend them.

Recommendations – Product Marketing

Local Community Development: KSF should aim to deepen its relations to the local community, aiming to market more products to nearby business owners and their respective clients. Furthermore, encouraging loyal individual clients with a successful credit history to form groups can be a way to reach more clients with a reduced default risk.

Leverage Existing Clients' Success: Disseminating success stories throughout the community, can bring in new business through a simple and more efficient method of marketing. KSF could leverage its clients' by rewarding them for each new client they refer that fully pays back a loan. These incentives, which could include more flexible terms, received enthusiastic support in client interviews and should be studied as a strategy to promote strong growth.

Technology as a source of Funding: Utilizing already available technology could also be an effective tool to disseminate information about KSF. Keeping an updated website will help potential investors gain a more visual insight into the operations and success stories of the MFI. The benefits could be very powerful due to access to a global audience of potential funders.

Current & Potential Future Crisis: The new battery of regulations released by the BoG in 2011, particularly the new micro-finance institution license requirement set of a significant increase in non-payment events. Widespread public awareness of the issue, combined with the BoG's stated aim of focusing on providing licenses micro-finance institutions active in different regions as the organization, precipitated a crisis where many clients were unwilling to pay unless the organization obtained a license. In an attempt to re-assure citizens, the new license requirements were widely publicised, yet not well understood, new organizations are unable to operate, but existing ones are grandfathered in and require applying for a license. This misunderstanding may have lead clients to collectively decide to default on their loans, as has been recorded in many cases where the durability of the lending institution is questioned. These problems were primarily addressed by 2014, through a combination of rescheduling and capital increases from the partners to compensate for the losses. A second crisis hit with the 2013-2014 recession which tripled the amount of rescheduled loans from 2013 to 2015, through a steep cut in expenses, increased collections, and funds provided by the directors, the situation began to stabilize in 2016 as rescheduled loans fell both in total terms and as percentage of the portfolio.

The organization has a strong track record of leveraging community and governmental ties to offer their clients a highly-differentiated microfinance experience. The TEACH strategy seems to be have effective in promoting both personal and community improvement, in combination with some well-timed specific programs to service needs as they arrive, utilizing diverse sources of funding. Moreover, their "word of mouth" community based marketing techniques seems to be effective in terms of growth and cost. Still the organization has at times placed too much of its growth strategy on these side ventures, and should attempt to re-focus towards their core competencies, funded through organic growth. We believe this is rebalancing towards core competencies is key for the organization's success.

4.1 Savings

The organization is a non-deposit taking organization, as such it is forbidden from taking deposits in excess of the 10% of the loan allowed as guarantee. Hence, though they do offer the option of voluntary savings, these are limited, and are stored in fixed deposit accounts in a series of community and rural banks. The accounts serve the dual purpose of incentivising savings and providing collateral for a client's loans. Savings are collected by loan officers on a weekly basis, and stored in the organization's own accounts, not differentiated escrow accounts as required by law. The organization's voluntary savings, though limited, offers their clients access to convenient and safe funds storage. Clients can collect their savings whenever they need them, but as of now the organization has no data on whether they are exceeding the 10% limit, and interviews with clients were not encouraging. This is a critical issue for the organization to solve immediately since it jeopardizes the entire operation.

All savings are placed in the organization's bank accounts, and typically there are used to fund new disbursements, though sometimes they are used to purchase high yield government treasury bonds that generate interest for the organization. The accounts can be credited to charge the interest owed by the organization's owners. Neither of these activities are legal, and should be halted immediately.

The lack of concrete information on the savings accounts also limits our ability to determine the effects of savings on the financing costs, which are currently unquantifiable. Managing the accounts is essentially free of excess charge for the organization, save the occasional interest, which would suggest the organization indeed derives some benefit in terms of reduced cost of funds. Yet given the unknown size of these savings accounts, even if true, the magnitude of this effect cannot be ascertained. This reinforces the previously mentioned imperative of deploying a company-wide accounting system than can provide management and the board these figures.

Risk Management: Liquidity risk from deposits is a serious risk. The staff believes this to be a small risk, given the overall small size of the deposits compared to that of their weekly income from interest. Still their claims are unverifiable, and this poses serious survivability questions about the institution. More importantly it contradicts the organization's core mission, and should be addressed immediately. To comply with regulations and avoid fraud, the organization has established a clear structure of who is charge of handling the deposits. However, the lack of transparency about the size of the savings they are liable from generates operational risk and should alarm investors and clients which are both likely unaware of this fact. In terms of re-pricing risk, the risk to the firm is currently limited, though its strategy plan claims it will soon start paying interest on savings, its financial statements show no interest paid on savings, meaning it currently faces no risk. The staff claims it occasionally provides "incentives" for clients to maintain savings for a long amount of time, but the variability of these incentives means the company has no exposure to re-pricing risk.

Quality of Delivery: The organization has laid out multiple saving mobilization schemes to attract and deliver its savings products to its clients. These include the use of promotional raffles to attract new clients and induce current clients to increase their balances using prices as valuable winning prices as incentive, as well as targeted programs for market vendors and "trotro" divers where they save their daily income with the organization for a period of time in exchange for a small fee. All of these projects are aimed at providing its clients with the convenient and secure saving options which would be unavailable to them in traditional banks. A representative example of this convenience is the door to door mobilization where cash is collected from traders and store keepers at their place of business or domicile. Significantly, these systems are managed by community activators, meaning their cost to the organization is minimal.

Contribution to Profitability: Though the organization has not yet determined the fully loaded cost of the voluntary savings program, or its contribution to overall profitability. Meaning the benefits of the savings programs to either the company or its clients are unclear. The organization is planning to fully release its unified IT system in 2017, which, combined with re-vamped financial statements, would provide clear financial performance metrics, for management and deliver transparency and confidence to consumers and investors alike.

Recommendations – Savings

Immediately Set up Designated Escrow Accounts: KSF should not use the safety deposits as funds for loan disbursement, disbursing them creates liquidity issues, since their main function is to serve as loan guarantees.

Immediately Set up and Maintain Detailed Saving Records: The organization should aim to at a minimum maintain updated centralized accounts of the savings its currently holds, both for operational and evaluation purposes. The absence of centralized information of these figures puts the organizations at serious risk of being shut down, it cannot be overstated how critical this is.

Move from Voluntary to Forced Savings: This transition will both help the organization improve its liquidity and long term financial situation, and comply with BoG regulations. Compliance with all regulations is essential to obtaining the license.

Though some of these recommendations might appear anti-growth, moving from an honour-based structure to a controlled operational environment, will drive increased confidence of potential donors/investors and reduce default rates.

5.0 Loan Portfolio Quality

The organization's MIS is its biggest challenge and, if not addressed, risks the viability of the organization's survival. The most critical of the areas currently affected is the organization's portfolio, which represents is its core asset and source of income. Analysis of the organization's financial statements suggests that the portfolio is not being measured adequately, due to accounting errors, and the own firm's policies. The portfolio is likely overstated by anywhere between 100% and 500%, depending if the figure is reconciled to effective rate of interest or number of clients. The organization's policy of automatically rescheduling loans, and rarely writing them off is partly to blame, but the larger share is attributable to a combination of technical mistakes, like double counting GHC 584,286 in loans, and general data management issues. As of yet, the organization does not have the capacity to effectively monitor its portfolio until its IT systems come fully online.

Even with the organization's current capabilities, it is perfectly capable of re-evaluating its entire portfolio in a very short period of time with minimal effort. In conversations with management it was estimated that it would take a week for the organization's team to obtain an updated balance of all loans. The portfolio could then be re-assessed, taking into consideration policy changes mentioned below. This represents the organization's top priority, it is impossible to determine an effective response or management strategy if the most basic information about the institution is lacking. To further this goal, this evaluation should be comprehensive, with loans separated by product, region, and sector, to determine where the organization is succeeding and where it is failing. Yet, the planning and effective implementation of the strategies outlined in this document, or any other future strategies, will be impossible while the organization is unable to measure and monitor its portfolio. Hence the organization should seek to implement the recommendations here proposed as soon as possible, and before launching or pursuing any other project.

The organization determines portfolio quality by using the portfolio at risk breakdown shown below, measuring the proportion of loans that are current, rescheduled and past due for varying amounts of time. A significant flaw is the lack of breakdown in the amount of loans past due that have been rescheduled, since this could provide a more transparent risk assessment. Moreover, the organization breaks down loans into agricultural and other categories to reflect their exposure to the different sectors (the latest available breakdown from 2016 showed 81% Agricultural Loans). It would be preferable for the organization to provide the portfolio ageing within these sectors, since the current division hides the distribution of delinquency within each sector. Likewise, producing product-wide portfolio aging schedules, would enhance the organization's ability to develop and measure the effectiveness of its strategy. As their new IT systems come online in 2017, performing a more in-depth analysis of the portfolio would be a critical first step to identify sources of risk and opportunity. Breakdowns into branches, regions and products would also be recommendable, but the most relevant data would be the average balance per customer in each aging category. This would clarify whether the portfolio is suffering from pervasive quality issues or these issues are focused in a particular product or region, making it easier to detect the risk of contagion.

Table 10: Portfolio Quality by Portfolio-at-Risk breakdown

PORTFOLIO AT RISK	DEC-11	DEC-12	DEC-13	DEC-14	DEC-15	DEC-16
RESCHEDULED AGING STATUS	Gross Loans	Gross Loans	Gross Loans	Gross Loans	Gross Loans	Gross Loans
CURRENT LOANS	1,184,709	1,291,327	1,874,551	1,691,327	1,596,576	1,396,576
RESCHEDULED LOANS (CURRENT)	166,877	441,909	203,317	511,909	638,686	518,686
RESCHEDULED LOANS (% PORTFOLIO)	9%	22%	9%	21%	26%	25%
LOANS PAST DUE 1 - 30 DAYS	175,551	185,244	117,002	189,244	122,758	102,758

LOANS PAST DUE 31 - 90 DAYS	240,603	35,151	148,529	35,677	69,125	60,125
LOANS PAST DUE 91 -180 DAYS	55,876	20,889	30,960	20,889	24,563	14,563
LOANS PAST DUE >180 DAYS	11,170	7,224	15,652	7,224	4,563	4,503
TOTAL	**1,834,786**	**1,981,744**	**2,390,010**	**2,456,270**	**2,456,270**	**2,097,211**

The level of rescheduled loans, shown in Table 10 is the key to understanding the evolution of the portfolio quality since 2011. The new regulatory regime introduced in 2011 was part of a broader effort of the BoG to expand the microfinance sector. One of the key reforms was the introduction of a license requirements for financial NGOs to increase trust in the system. In that regard, they have succeeded. Microfinance activity has surged and the organization's competition has multiplied in the past few years. The publicity of the new licensing requirements made many of the organization's clients demand a license before paying. Based on evidence on similar events, many other clients believed the organization would not survive, removing the incentive to pay back their loans. Given that the organization quickly transitions defaults into rescheduling, even if accurate, the total portfolio size would be an imperfect metric. The tripling of rescheduling suggests that portfolio quality decreased significantly in 2012, and has not recovered since. Once the portfolio has been revalued, the organization should keep quarterly rather than annual figures on portfolio rescheduling, this would allow them to determine any seasonal component to their portfolio, enabling better cash management policies in the future.

Portfolio Summary: Over the past two years the portfolio has shrunk significantly, with close to GHC 400,000 being written off in between 2015-2016, and a 50% increase in the loan loss provision. The combination of these two trends has produced a contraction of the portfolio of 22% from GHC 2,481,263 to GHC 1,973,713. This trend of stagnant, even shrinking portfolio, is carried on from 2013-2012, when the portfolio saw a significant increase (GHC 408,268) as a result of capital injections from the directors. The write-offs in 2015 represent a significant deviation for the institution, given its policy to reschedule loans almost automatically and rarely writing them off. This represents a logical step, in what appears to have been a severe crisis for the organization, initiated by the BoG regulations, and compounded by the 2014 recession. Though evidence suggests that the organization will have to write off an even larger amount of loans when it re-evaluates it portfolio, it is encouraging that it took this course of action on its own. In terms of loan loss allowances, a first glance view shows a search to increase allowances as the portfolio decreases, but further analysis (detailed below) shows that this in fact the product of a typo on the balance sheet, and the institution has not carried out the appropriate provisioning. Its current policy seems based on arbitrary selected figure, rather than empirical evidence. More importantly, the issues with the organization's balance sheet, and its constant violation of its own minimum 8% cash position, raise questions as to whether these provisions would actually be able to avoid a cash crisis if delinquency increases. This represents a high operational risk for the organization, as detailed below, the organization should aim to re-evaluate its provisioning policy, aiming to reach the recommended provision rate as soon as possible.

Loan Loss Provision: Based on the requirements identified in the IE MiF Theoretic Guide (Exhibit 6), the required loan loss provision is GHC 197,659 (assuming the worst-case provisioning of 100% for the 91-180 days past due since the company does not break these down into 91-120 days and 121-180 days). Based on reported figures it seems that the organization is very well provided, since its stated provisions are GHC 393,796, that is to say the organization's provisions are almost double their required provisions. However, deeper examination of the organization's financials shows that the provision grows by 0.5% of the portfolio, and the provision of the previous year. Moreover, the loan loss provision expense was calculated as 0.5% of that year's portfolio plus the previous year's expense (which is not consistent with the increases in LLP). This likely represents a technical mistake on the part of the organization, since the organization's stated policy is to provision 0.5% of the loans issued in a year. The tables below show the reported portfolio, loan loss provision, and loan loss provision expense, and those calculated using the adjusted portfolio (adjusted for double counted loans) and the organization's own policy. All figures in GHC.

Table 11: Reported Provision Levels

	2016	2015	2014	2013	2012
PORTFOLIO (REP)	2,097,210	2,456,270	2,456,270	2,390,012	1,981,744
LL RESERVE (REP)	(393,796)	(383,310)	(255,429)	(127,549)	(115,599)
LL EXPENSE (REP)	10,486	12,281	63,866	51,585	39,635
LLP % OF REQUIRED PROVISION (REP)	1.99	1.94	1.29	0.65	0.58

Table 12: Provisions Levels Following Stated Policy

	2016	2015	2014	2013	2012
PORTFOLIO (ADJ)	1,512,924	1,871,984	1,871,984	1,805,726	1,397,458
LL RESERVE (ADJ)	(117,972)	(117,972)	(117,972)	(117,640)	(115,599)
LLP % OF REQUIRED PROVISION (ADJ)	0.60	0.60	0.60	0.60	0.58

Table 11 shows the reported provision level, which theoretically rose up to 1.99 of the required level in 2016. Still, we know these numbers emerge from an excel mistake. Table 12 shows what would be the organization's provision levels if they had followed their stated policy, even though this numbers are not fully reliable, this suggests the organization has provisioned at best only 60% of the required amount. This represents a dangerous level of provisioning, since the organization could easily fall into financial distress with only modest increases in delinquency. This is particularly important given the organization's recent history with increases in rescheduled loans. The organization should aim to aggressively increase its provisions, reducing the level growth of new loans, until the provisions have reached required levels.

Write-Offs: The organization's policy writes off loans after 365 days, which is double the time recommended by ACCION's CAMEL guide to analyse microfinance institutions. It should also be noted the decision to write-off loans is sent to the board, not carried out automatically. Moreover, interviews with management revealed that in practice the organization usually waits 3 to 4 years, before referring loans to the board. Given the organization's under-provision for loan losses, this problem is compounded. The organization should review all of its portfolio and write off all loans which have not been paid for longer than a year, and preferably lower this limit to 180 days. Additionally, the board should elaborate a more detailed write-off policy to ensure ad-hoc treatment is not being given.

Restructuring: The organization has strict procedures in place for credit rescheduling which requires proof of existence of unforeseen developments and must be approved by the board. A default is typically triggered when payment is late for more than seven days (given weekly collection periods), after which the client may begin the rescheduling procedure. Firstly, the client must explain the default orally and in writing to the board, after which credit officer must perform a field visit and then submit a report to his manager. The rescheduling procedure can involve either an extension of the repayment period or grating of an additional credit amount. In the case of cocoa farmers and other agricultural producers, the organization's rescheduling policy extends the loans until the next season (one whole year). As of 2016, 25% of the organization's stated portfolio is made of rescheduled loans, down slightly from 26% as product of some loan write-offs.

Delinquency: As has been detailed in the Institution section of this report, inadequate MIS make it hard to track loans at the institution level. Both the management and the board claim that these loans are effectively tracked at the group and branch level, but no evidence to support this claim was provided. This is essential for a smooth running for the organization, and even more critical for risk management, reinforcing the imperative of rolling out their new MIS as soon as possible. Moreover, the board should look to clearly set out a strategy to track delinquency, establishing clear thresholds that trigger an immediate board meeting and procedures to protect the portfolio. Including, but not limited, to immediate disbursement freezes and budgetary constraints, and attempts to reschedule their own liabilities with creditors. Though the organization has not a formal definition of a crisis, historical data suggests a level of rescheduled loans above 15% puts the organization in serious financial stain. Auspiciously, there is some evidence of the organization taking some of the recommended actions during the periods of strain that began after the BoG's licensing regulations, and were compounded by the 2014 recession. As rescheduled loans rose to 22% in 2012 and then again to 26% in 2015, the organization stopped disbursements. On the other hand, reported expenses do not seem to have been consistently adjusted at the beginning of the crisis. Only in 2014 remunerations dropped significantly. There is no evidence of any attempt to reschedule liabilities. Fortunately, it seems that the organization's directors seem willing to inject significant funds into the organization in times of need, having done so twice in the past 10 years. The first time was in the 2011-2013 period when the rescheduling crisis first hit the institution, and the second time in early 2017, when the organization was provided GHC 700,000 to fuel continued growth.

Collection Policy: Site visits provided little insight into the organization's collection policy, since loan officers were not available for interviews. Regardless, discussions with the staff revealed that while clients were only visited once a week by a credit officer, part of the TEACH strategy involves more frequent visits by community *agitators* which are also authorized to collect payments under certain conditions. This is both efficient and cost effective, since it requires little effort, and no expense, on the part of animators to see clients frequently, even daily. Moreover, the intense social and reputational pressure to repay, which is foundational to micro-finance, was present in all client meetings. Evidence from other micro-finance institutions shows that this social component is key to ensuring clients will make every effort to repay their loans. On the other hand, the high level of rescheduled loans shows that this has not always been the case, to prevent this from occurring again the organization should focus on making sure groups share deep social and community ties, and consider increasing the level of joint liability from a small section of the group, cell, to the entire group.

Board Members and Staff Loans: Board members receive no preferential treatment in terms of disbursement, repayment, or rescheduling. They are allowed only one loan and regular payments are a requirement to retaining their seat on the board. All loans to directors must first be approved by the BoG before disbursement. Moreover, per the policy documents, signed off by the board in June 2003, the loan application must meet the same requirements as all commercial loans, unless the loan is considered an emergency. On the other hand, interest chargeable to the director's loans will be 7.5% lower than the organizations approved interest rates for all categories of loans. The staff may only receive loans from a small budged outlined at the beginning of the financial year, the Provident Fund. Again, credit application and requirements are the same as for any applicant, though interest rates from the Provident Fund will be charged an interest rate of 3%, and loans issued with surplus funds will be charged an interest rate of 5%. Conditions for repayment and rescheduling are the same as for any commercial loans. Finally, neither directors nor employees are charged commitment fees. Currently, both the board and staff have no outstanding loans.

Independent Testing: The organization does not carry out any external independent testing of its portfolio, including audit procedures. In fact, conversations with their auditors, K Kye & Associates Ltd, suggests that they do not conduct any audit of the portfolio, taking at face value the numbers provided by the company. The organization should insist on these changes; auditors should perform tests of the portfolio at least every few years to ensure the data the organization is using is accurate. This reinforces the need of revaluing the portfolio, and maintaining strong IMS. If external auditors are not capable of performing a portfolio audit, or this is too costly, the organization must ensure its own appraisal is valid.

Recommendations:

The organization has a low level of its PAR, mostly because of its rescheduling policy, where defaults trigger almost immediate rescheduling. This has resulted in rescheduled loans representing 25% of the portfolio, and having been at that level for almost 5 years. Given the issues raised about the portfolio throughout this report it is unclear whether loans from 2012 are still being counted as rescheduled but being paid currently, rescheduled loans have been effectively in arears since 2012, or whether newly issued loans have the same level of rescheduling. The most likely explanation given the concerns about the portfolio size is that rescheduled loans are effectively defaulted, but the re-estimation of the portfolio is critical for making the assessment. The portfolio is the organization’s most important asset, without a clear idea of its magnitude, no future strategic planning is available. Management and the board are aware of the numbers, but have not proposed specific plans to deal with the issue. Given the complications the organization will face to obtain a license from the BoG, the likelihood that a similar crisis could hit again is not unlikely. The organization is looking to begin disbursing the latest capital injection to power its future growth, but it should hold off until a realistic portfolio position can be ascertained. At least a portion of the funds will be necessary to stabilize the balance sheet since upon re-appraisal the portfolio is likely to decrease by a 100% at the minimum. Still the organization’s cash position puts it in an excellent position to clean its balance sheet, and bounce back to challenge its competition. To avoid squandering this opportunity, the organization should move to immediately revalue its portfolio, and with that, it can set on to develop a growth strategy, that should focus on returning to its core competencies and competitive advantages.

6.0 Business Planning[10]

This section evaluates the institution´s strategic and business planning processes as well as the reliability of its financial projections.

KSF has made a big step forward in developing a business plan – Strategic Plan 2015-2017. The plan gives a good overview of KSF as an enterprise: it indicates mission and vision, objectives and functions, background of the organization, governance structure, sources of capital, technical assistance, microfinance and community education projects, and finally, analysis of financial performance and current development situation. Although the Strategic Plan is undoubtedly a leap forward, it cannot be characterized as a complete business plan. Business planning involves two closely related processes – strategic planning and operational planning. While KSF has a version of a strategic plan, the operational planning part is not present in the document. Operational planning encompasses the framework for a successful implementation of the strategy, justified by financial projections. The quality of the business plan depends on involving all the key stakeholders – in the case of KSF, the board, staff and clients. The input from clients is especially important, since it will help identify the issues at the operational level. Following the recommendations made after the last assessment, KSF changed the composition of the board by adding Mrs Eunice Ameyaw, a former client, as a board member to ensure that the voices of the clients could be heard. Overall, KSF has demonstrated enthusiasm towards developing a quality business plan.

The flow of operational planning can be summarized in the following steps[11]:

1. Defining products and services
2. Specifying marketing channels
3. Planning institutional resources and capacity
4. Developing a financing strategy
5. Analysing financial projections
6. Using business planning and financial projections as an ongoing management tool

Developing sound financial projections is an integral part of the process. Comparing the projected performance with the actual one will allow management to monitor progress towards the target results. Meeting financial projections will also add credibility to KSF's operations in the eyes of the potential investors. Given KSF's goal to become the leading FNGO in Ghana by 2025, it is key to have a set of projections to demonstrate to investors that the institution's strategic plan is achievable. Lack of operational planning, and most importantly, financial projections, along with the poor quality of the financial statements make it impossible to assess in depth the viability of the strategic plan.

Macroeconomic indicators are in favour of the growth outlined in the Strategic Plan: inflation by CPI has been decreasing from January 2016 (see Exhibit 7), however, the current level of 13.2% is still above the inflation rate of 8% targeted by the BoG. Five regions (Greater Accra, Upper West, Western, Brong Ahafo and Ashanti), recorded inflation rates superior to the country average rate of 13.2%. A decrease in the inflation is a positive trend for KSF, because it reduces uncertainty and fosters investments. The continuation of the downward trend will create a positive environment for expansion, as more people will be willing to start new businesses and expand the existing ones.

Ghana key policy rate had been increasing until March 2017 (see Exhibit 8), when Ghana's central bank cut its key policy rate 200bps to 23.5% due to falling inflation. Given the positive inflation outlook, rates are expected

[10] MicrofinGuide Business Planning and Financial Modeling/ The New Microfinance Handbook

[11] MicrofinGuide

to be reduced further, making funding cheaper. Availability of funding also creates a positive environment for KSF that, at the moment, faces liquidity constraints.

KSF has used four sources of funding since its inception in 1996 – promoters/subscriber's capital, grants, concessionary loan facilities and commercial loan facilities. As of 2016 subscriber's capital amounts to 19.55% of equity with 2.86% of donations. The bank's current sources of funding include a concessionary revolving loan facility from Social Investment Fund (SIF). The facility granted in November 2004 was fully repaid and renegotiated again on the amount of GHC 186 430 outstanding of clients' to-date. Commercial loan facilities currently on the balance sheet of the FNGO are an agricultural value chain credit agreement with the Millennium Development Authority (MiDA) via the Agricultural Credit Program (ACP), a loan from RHEMA Consulting Limited. The MiDA credit line was disbursed for sponsoring 4/55 farmer-based organization which applied for support. The MiDA project is ongoing and has an outstanding balance of GHC 207 850 as of 2016. Despite facing challenges including increased competition, liquidity shortages and poor technical assistance, KSF has been able to obtain access to funds from a variety of sources (see Funding sources). Moreover, in 2012 KSF joined the Wishes Alliance forum, a platform for NGOs to exchange ideas. Although no funding has been obtained through the platform yet, KSF has been linked to several funding sources including MikroKapital, ADDAX & ORYX FOUNDATION, Global Innovation Funds and Tiet Foundation, among others. The three sources of funds mentioned above have various interest rates – 12.5-18.5% for Social Investment Fund with the outstanding balance of GHC 187 130, 15% for MiDA credit line with the balance of GHC 207 850 and 25-29% for RHEMA Consulting Ltd with balance of GHC 18 000. Additional funding would add value to KSF. KSF has a good reputation with the clients, and access to financing will allow to expand the business - the board has various business ideas that require an initial capital investment.

During the assessment, several concerns were raised regarding the viability of the strategic plan. Management was able to resolve the doubts by giving constructive comments. The first issue of concern was the rivalry in the industry. Over the past five years, the microfinance industry has begun to pick up. Organizations in both formal and informal sectors of the economy identified growth opportunities in lending to micro enterprises, especially those involving women. KSF believes that in spite of the abundance of possible credit schemes, they have a competitive edge due to their unique methodological approach to lending – TEACH strategy as opposed to classical credit delivery approaches (subsidized debt, group credit and individual credit). Indeed, clients interviews during the assessment outlined that they would not consider switching to a different microfinance institution, because of their personalized approach and provision of non-financial services. The second issue dealt with the decrease in net loan portfolio in 2012 It was clarified later that the problem was attributable to the license regime imposed by the BoG – with the introduction of mandatory licensing, clients refrained from using services of organizations that did not comply with the new regulation. Most of the microfinance institutions experienced similar issues in 2014. Once the initial shock subsided, the clients resumed the borrowing activity. Finally, the license regime imposed by the BoG put in question the going concern assumption. However, the license regime resulted in protecting KSF from competition – the newly created institutions have to obtain a license from the BoG before they can start operating, while those that were in the business before 2014 are allowed to continue operating without the new license. In fact, at the moment of writing the report, there are only 11 institutions that have been able to obtain a license, and KSF is working to be the next one to do so.

Strategic planning is a correct step towards efficient planning. The document issued by KSF gives a good overview of the business, however, it should be complemented with an analysis of the market, the business environment and risks and the clients that investors will be focusing on. Suggested analysis tools could be SWOT-analysis mentioned above, and a Porter's five forces framework. Porter's five forces assumes that there are five important forces that impact the firm's competitive power:

Supplier Power: Assesses the bargaining power of the microfinance institutions. Relevant factors are the number of institutions, the uniqueness of the products offered, size of the market, the cost of switching from one institution to another, etc. Most of the microfinance institutions in Ghana offer standardized products, but due to the size of the market, the supplier power is relatively high – there is a lot of unattended demand.

Buyer Power: Assesses the bargaining power of the clients. Relevant factors are number of clients, the importance of an individual client to the business, cost of switching, etc. Again, due to unattended demand the buyer power is low.

Competitive Rivalry: Measures the intensity of competition. Factors to take into consideration are number of competitive institutions, products differentiation, etc. Rivalry in the Ghanaian microfinance market is increasing, however, since KSF offers unique products, different from the majority of standardized ones, KSF has a competitive advantage in an industry with high competitive rivalry.

Threat of Substitution: identifies the ability of clients to find an alternative for the service provided. KSF's services are quite unique, however, once offered a product with a lower rate, clients might switch to a competitor.

Threat of New Entry: measures the ability of new players to enter the market. As discussed above, with the inception of the license regime, no new players can enter the market until they obtain the license from the BoG. Thus, the threat of new entry is low.

To sum up, KSF has relatively high competitive power in the industry. High competitive power is associated with stable cash flows, which will be a benefit to KSF in the loan negotiation process.

Last, but not least, transparency about the risks is crucial for investors. The strategic plan needs to include a thorough description of the risks associated with the business activity and how these risks are mitigated and monitored. Risks should be a topic of regular discussion in the board meetings, when representatives of all the stakeholders can provide their input. As microfinance is a client-driven business, input from clients is particularly important. KSF needs to make sure that Mrs Eunice Ameyaw discusses the problems that the clients are facing on a regular basis and communicates them to the board.

A strategic plan needs to be updated every year so that it reflects the visible 5-year outlook of the firm's development. Investors want to see how new loans are in line with the institution's strategy and that the targets are achievable. KSF should also consider developing a long-term business plan that would justify the short-term operational and strategic moves. In order to be able to present a sound and complete business plan to investors, it is imperative that KSF develops an operational plan with financial projections.

To conclude, these are the steps that KSF needs to undertake in order to make a sound business plan:

1. Restate the financial statements
2. Adjust the strategy based on the realistic assessment
3. Add the suggested sections to the strategic plan
4. Follow the steps to design operational planning outlined above:
    - Define products and services
    - Specify marketing channels
    - Plan institutional resources and capacity
    - Develop a financing strategy
    - Analyse financial projections
    - Use business planning and financial projections as an ongoing management tool
    - Consider adopting Microfin, standard operational and financial tool for microfinance

7.0 Social Performance

KSF organises its objectives in three time horizons, short-, medium- and long-term. The ones in bold are the ones especially relevant for the social performance of the FNGO:

Short-term/Immediate

1. To design, plan, implement and manage educational programmes such as rural health and sanitation improvement, water and waste management and environmental awareness creation.

2. To organize community groups who have not generally had access to organized credit.

3. To collaborate with other institutions.

4. To re-direct financial resources.

Medium-term/Intermediate

5. To promote the use of credit as a fair tool for human development.

6. To sensitize self propelling learner groups with functional literacy skills.

7. To help improve upon the qualities and methods used in their indigenous techniques of production.

Long-term/Ultimate

8. To build capacity in community project management based on participatory civic engagement methodology called TEACH.

9. To link organized community groups to established rural and micro finance institutions.

10. To be a licensed Financial Non-Governmental Organization

To achieve these objectives KSF has been offering financial and non-financial support to the economically active poor to promote the growth of their businesses and to improve their standards of living. According to their latest strategic report, women account for 98% of KSF's clientele. Most of these women are necessity entrepreneurs on a small scale and mostly active in the following activities: bakers (8.7%), petty traders (10%), farmers (8.7%), fish processors (18.5%). Despite the fact that the institution doesn´t have a specific social performance strategy and impact monitoring methodology in place, it can be observed the following:

Coverage: KSF's main target markets are women, representing 98% of its total portfolio. MSEs, which are a target for FNGOS such as KSF, play a major role for women and low-skilled labour in Ghana. Men are more present than women in all company classification sizes except in MEs. When looking at large and medium size companies, the number of males is about twice that of women while in MEs, there is almost perfect parity. This suggests that there may be a significant number of women working in "informal household enterprises" (Trombetta and al., 2017). According to the same authors, women operate in smaller business than men and have an especially low opportunistic behaviour regarding their business.

Methodology: KSF provides microfinance services and advisory and training services to targeted clients before and after disbursement. KSF does provide loans to necessity entrepreneurs, mostly women and are used to finance their short-term working capital. The loan size may be increased if the repayments are repaid in due time. KSF states that training in areas such as credit management is a pre-requisite for the credit to be granted. It also arranges customized training programmes to help client who are not familiar with financial services. Clients must be women who are at least 18 years old and who have grouped themselves in a "solidarity cells" of four to seven other women to personally guarantee each other's loan. Each solidarity cell must elect a leader who will become the offer of the larger group. From all the solidary cell leaders, the whole SCS members must elect a chairperson, a treasurer and a secretary. All the SCS members must meet on a weekly basis and must collect savings from each member each week. If a member of a SCS needs a loan, it must first be approved by the member of the same solidary cell and then presented to the whole SCS membership for review and approval. All disbursement and collection of money must be made in full view of all SCS members at the weekly meeting with public declaration. SCS may apply sanctions to faulty borrowers but this has never happened before according to management.

Impact: Most clients of KSF are located in the Accra metro region (close to 80% according to management). The 2014 edition of the Global Findex Database shows that only 35% of the adult population in Ghana (people aged 15+), had an account in a financial institution. Despite a 6% increase compared to 2011, a large gap still exists. The use of accounts is also limited to sending/receiving money, and while the share of formal savings has increased, susu savings have grown faster. People in Ghana save mostly for education purposes, followed by emergencies and business activities (World Bank). The insurance sector has observed significant growth over the last few years but only covers 1% of the population. In the rural areas, 30% own an account and there has been a substantial increase in savings from 34% in 2011 to 54% in 2014. The gender gap is becoming less important as accounts held with a formal institution are the same for men and women, namely 34%. Women tend to save less than men, but females do it almost in the same proportion with formal institutions. It therefore seems that males have a greater access to informal savings than females. Financial exclusion still remains a problem in Ghana and is particularly problematic for the poorest 40% of the population, women and people living in rural areas. Informal institutions are mostly used to save while family and friends do play an important role in borrowing (Trombetta and al, 2017).

7.1 Intent and Design

KSF offers several products, from the loan to services such as educational programmes. The products have been designed in such a way to help women in the lower part of the pyramid to develop their business. KSF's products are adapted to their clientele as:

- Collateral is not required thanks to the system of the solidarity group (see above)
- Loans are available in small amounts (USD 100-200)
- Loan repayments schedules fit women's business cycles
- Micro enterprises with few employees are eligible to get credits
- Signatures of spouses or male relative is not required
- The hours of operation of the MFI is compatible with women's business and domestic obligations
- Credit management training is offered and a requirement to disburse the credit

One of the key services offered by KSF is the skills training. These can be workshops on how to make soap or about raising awareness towards women's civil rights in the society. While visiting clients, several of them mentioned the importance of these trainings to improve their skills and their business (many of them sell the soap they create) and would like to be offered more training. Also, KSF staff personally visits the clients not only to collect the payments on loans but also to discuss with clients regarding any difficulties they may have encountered lately. This approach enables them to personally know most of their clients and to engage with them on a deeper basis. If a client were to be late to pay back part of her loan, KSF applies a flexible policy and does not immediately trigger the process of excluding the woman from the community. To that extent, it can be said that KSF fulfils its social goal. However, field visits are key for KSF and one of its weaknesses is that it has limited logistics to conduct these visits. This hinders them from effectively reaching their social goal entirely.

Their community system enables women to rely on each other and to create a kind of social pressure for them to repay back their loans. If they were to default on a loan, not only would they have issues with KSF, but also with the community they are part of and therefore, with their neighbourhood. The SCS system is more than a way to collect money: it creates a real connection between the women involved as it offers them a network and access to potential future clients and/or working partners, as related by many clients. clients can also be involved further: when KSF hires people for the board, they also look for previous clients of KSF or community animators. This ensures that the women are aware of the environment KSF is working in and also that the board members have a direct contact with clients. This represents a positive empowerment possibility for the KSF community.

7.2 Depth and Breadth of Outreach

The foundation certainly has the potential to attract both new clients and to retain the existing ones. Indeed, during the field visit, it has been mentioned several times that existing clients would like their loan to be increased and that they know people who would like to get a credit from an institution such as KSF. Also, they would like to be offered additional training. However, it is not sure whether KSF has the capacity to do so. It has reduced staff over the last couples of months/years and has not recently found a partner to provide them with the necessary infrastructure to operate their activity. Finding the local support of a partner (such as MIDA) would certainly help KSF expand their operations and their breadth of outreach. Currently, KSF has approximately 2,200-2,300 clients and women account for approximately 98% of this number.

7.3 Changes in the Social and Economic Lives of Clients and their Households

While visiting clients on a field visit, it is obvious that the lives of clients have changed since they received a loan from KSF. Clients first use the loan to set up their business and, as the volume increases, they use the money to expand the number and the types of products they are offering. One of the clients even bought a second container which she uses as an additional shop. Receiving these loans has also enabled clients to send their children to school. As some clients single-mothers, setting up a business helps them to pay tuition to send their children to school. Clients were also able to improve crucial skills to keep their business such as basic accounting, how to attract customers, etc. Also, they do sell some of the products they were able to create these products thanks to workshops (soap, flip flops, necklaces,).

7.4 Demonstration Effect

Most of the clients that have been met during the field trips have been put in contact with KSF thanks to word of mouth. Indeed, KSF is working on a community basis as explained before, and this creates a considerable networking opportunity for both the clients and the foundation. The community, in certain cases, is composed of people having different type of businesses (e.g. a hairdresser, a retailer, a food-producer) and are clients of one another. The community has both a social and economic impact on the people who are part of it. This creates a positive input in the community's environment and generates additional business for KSF as this attracts more potential clients. Actual customers said they knew many people who would like to be put in touch with KSF, so there is a clear potential for growth. A recommendation would be to create an incentive programme to encourage actual clients to bring new ones to the foundation. An example could be to offer them free items or a particular attractive loan scheme.

7.5 Durability and Impact

As stated earlier, some of KSF's clients have been able to become entrepreneurs in that sense that they expanded their business. A striking example to demonstrate this is the case of a single mother that obtained credit from KSF to open a retail shop in the suburbs of Accra. She first opened her shop and sold certain products such as water in plastic bags, soft drinks and rice. Opening this shop enabled her to send her child to school. Later, she used the roll-over of her loan to expand her shop by offering additional products. She even constructed a shelf for the new products she plans to buy. This client also benefits from a valuable network of entrepreneurs thanks to the community system. All these elements tend to show that KSF is helping clients to become true entrepreneurs by developing their shop further if they are provided with the opportunity to do so. The organization does not offer any additional financial services yet, but it has plans to start rolling out micro-insurance, micro-leasing of equipment and micro-money transfers in 2017. The addition of this products could be very significant to the organization allowing it to both attract new clients, and provide them with more financial stability (see section products). KSF says it is currently in discussion with Star microinsurance to provide insurance services to its clients.

Recommendations – Social Performance

Setting SMART Goals: The institution currently has unclear social objectives in its mission, broadly describing its target clients, methodology that will improve their welfare and the impact they intend to have. Therefore, the first step should be to adopt a SMART (Specific, Measurable, Achievable, Result Oriented and Time Bound) social goals strategy for each of its social objectives. By doing so, KSF can effectively advance towards achieving its social objectives and therefore its mission. This would facilitate easier planning and execution. For example, if poverty reduction is to be focused on, what steps does the institution intend on taking to achieve this goal? What KSF includes in the purview of poverty reduction activities needs to be strategically defined.

Setting Indicators: As a second step, KSF should set social indicators for each of its objectives and then goals to measure progress towards their achievement. These indicators should be related to coverage, target clients, the institution's efficiency in meeting client needs and other indicators describing the changes in the needs of the clients and the impact of the institution on them. Each indicator should be assigned a weighting depending on the importance on each social goal. Additionally, the organization should incorporate social performance indicators to more effectively track and promote its mission.

Assessment of SPM: Once the objectives, goals and indicators are established, KSF must conduct a comprehensive self-assessment of the current social performance management i.e. its activities, internal systems and its relationships with internal and external stakeholders. This requires an analysis of processes from a social perspective in order to identify those aspects that can be targeted towards the achievement of the social objectives. For example, the creation of an information system that is capable of generating reliable and timely information to understand and manage the progress towards achieving its mission. Imp-act Consortium gives a guidance note on how to integrate SPM into internal processes.

Process Alignments: After conducting a SWOT analysis of the current social performance management of the institution and studying the information needs, KSF should try to align its internal control systems with its social objectives and goals. It is about designing a strategy specifying objectives and activities to be developed within a feasible time frame. The institution should to be creative and build gradually on existing polices and controls. It must review its strategy from time to time in order to keep improving operations and expanding its reach and social impact.

8.0 Information for Donors and Investors

In its current state, KSF has sufficient funding (the recently injected GHC 700,000) to support its operations, and grow its portfolio. Funding might be recommended in a few years, if the concerns raised in the report are adequately addressed. The organization would certainly benefit from non-financial assistance, critically Financial Accounting training and management information system auditing. Market studies, and information could also help the institution orient its growth strategy.

APPENDICES

Exhibit 1: KSF's Mission

Exhibit 2: Bank of Ghana Requirements

Bank of Ghana Requirements	Compliance	Comments
Minimum capital requirement of GHC 300'000	Unknown	Given the fact that the balance sheet of KSF does not balance and that most entries are not accurate, it is difficult to estimate whether they do comply with this requirement.
Not more than 25% of initial paid-up capital or additional capital for branches shall be spent on property, plant and equipment (capital expenditure). That is, at least 75% of all initial paid-up capital and/or additional capital shall be in liquid cash resources to support operations.	Unknown	Given the fact that the balance sheet of KSF does not balance and that most entries are not accurate, it is difficult to estimate whether they do comply with this requirement
No person other than a body corporate, incorporated in Ghana, shall be eligible to apply for a licence to carry on Tier 2 or Tier 3 microfinance business	Yes	KSF is incorporated in Accra, Ghana. It therefore complies with this requirement
Shareholding of microfinance institutions such as Susu companies, Deposit taking financial NGOs and Money lending companies shall be restricted to only Ghanaians	Yes	All shareholders of KSF are from Ghana
All Tier 3 entities shall require not less than GH¢60,000.00 as minimum paid-up capital.	Unknown	Given the fact that the balance sheet of KSF does not balance and that most entries are not accurate, it is difficult to estimate whether they do comply with this requirement
In addition, they shall maintain a gearing ratio not exceeding eight (8) times their capital.	Unknown	Given the fact that the balance sheet of KSF does not balance and that most entries are not accurate, it is difficult to estimate whether they do comply with this requirement
Tier 3 institutions shall be eligible to establish branches subject to the prior approval of the Bank of Ghana and compliance with any other conditions determined by the Bank of Ghana.	No	KSF does have branches even though it is not allowed by the BoG given the foundation's status
The granting of micro-loans to their customers provided an unsecured loan shall not exceed 10% of the paid-up capital of the entity.	Unknown	Given the doubts about the portfolio size, it is impossible to answer this question with certainty.
The raising of funds, excluding deposits, from high net worth individuals, wholesale sources and donors. This activity shall be subject to observance of a minimum tenor for borrowing of not less than ninety days and a gearing ratio of not more than 8 times the paid-up capital	No	Given the fact that the balance sheet of KSF does not balance and that most entries are not accurate, it is difficult to estimate whether they do comply with this requirement

In the case where money lenders or non-deposit taking FNGOs receive deposits as collateral for lending, these shall be held in an escrow account with a designated commercial bank.	No	Deposits are received as collateral, but not kept in escrow accounts, they are lent out.
The FNGO has adequate business premises, staff operating area, ventilation, lighting, etc.	Yes	KSF does have adequate premises, at least in Accra, to operate its business
Has demonstrated security of the premises, including adequacy of alarm systems, fire extinguishers, vaults or safes, etc.	No	KSF does have a fire extinguisher but does not have any alarm system. Moreover, valuable assets are simply locked in the CEO's office
Has in place up to date insurance covers – fire, burglary, fidelity	No	KSF does not have insurance regarding its premises
Possesses Operational plans and policies approved by the Board.	Yes	KSF does have an operating manual approved by the board. However, it is outdated and not complete, therefore BoG may not be willing to approve this point
Has accounting procedure manuals, computers and appropriate software, etc	No	KSF does not have an appropriate MIS but this could change should they implement MIFOS. The procedure manual is not complete.
Has in place adequately trained and sufficiently experienced staff as well as competent key personnel	Yes	KSF's CEO knowns the microfinance industry well and holds a PhD in development studies. Most of KSF's remaining staff know the clients well and know how KSF is working.
Has submitted its first year pre - operating financial statement of affairs.	No	KSF did not submit their financial statements yet as they are still getting prepared to meet BoG requirements.

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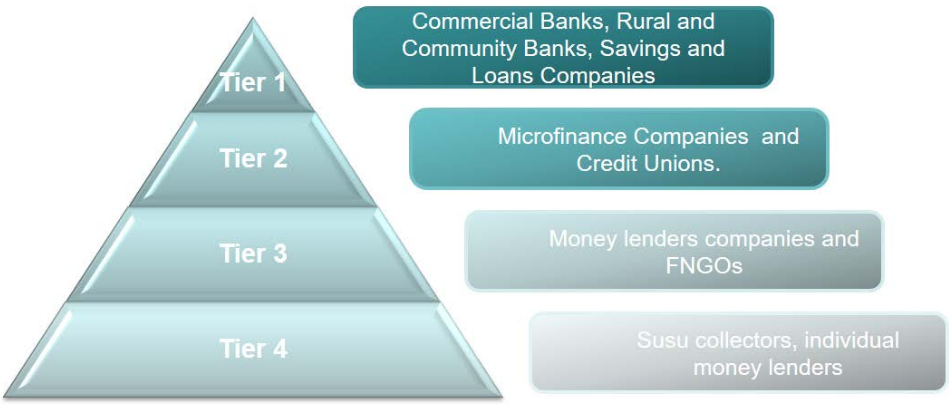
Exhibit 3: Bank of Ghana Tier System



Source: IE Business School, 2016

Exhibit 4: KSF's CAMEL Analysis for 2011

QUANTITATIVE INDICATORS			QUALITITATIVE INDICATORS		
	OBRONI	**MAX. PUNT.**		**OBRONI**	**MAX. PUNT**
CAPITAL ADEQUACY Weighting (Max. 15%)					
1. Leverage	5.0	5	9. Ability to Raise Equity	2.0	5
2. Adequacy of Reserves	4.0	5			
ASSET QUALITY (Max. 21%)					
3. Portfolio at Risk	0.0	8	10. Portfolio Classification System	1.8	3
4. Write-offs/Write-off Policy	7.0	7	11. Productivity of Long-term Assets	1.2	1.5
			12. Infrastructure	1.2	1.5
MANAGEMENT (Max. 23%)					
			13. Governance/Management	4.8	6
			14. Human Resources	2.4	4
			15. Processes, Controls, and Audit	1.6	4
			16. Information Technology System	2.0	5
			17. Strategic Planning & Budgeting	1.6	4
EARNINGS (Max. 24%)					
5. ROE	0.0	5	18. Interest Rate Policy	2.4	4
6. Operational Efficiency	8.0	8			
7. ROA	0.0	7			
LIQUIDITY MANAGEMENT (Max. 17%)					
8. Productivity of Other Current Assets	0.4	2	19. Liability Structure	6.4	8
			20. Availability of Funds to meet Credit demand	2.4	4
			21. Cash Flow Projections	1.2	3

TOTAL	24.4	**47**	31.0	**53**
OBRONI	55.4			

Exhibit 5: KSF's Main Partners

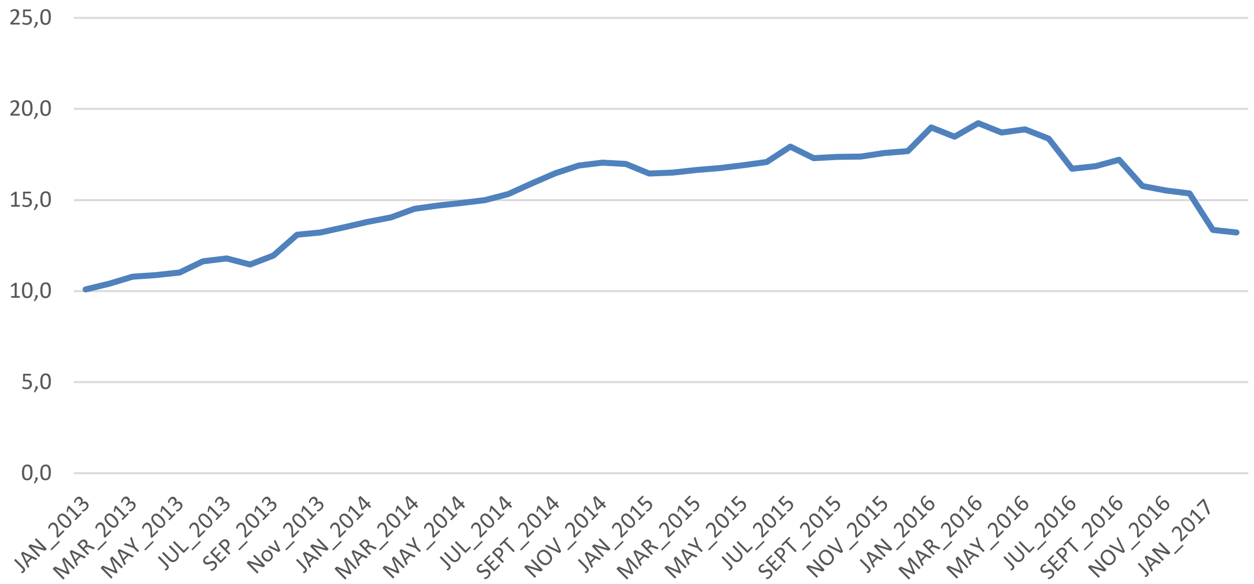
PARTNERS	PRODUCTS	POINTS OF SERVICE	REGION
International Alliance for Women (TIAW)	Agape	Gomoa Budumburam (RefugeeCamp)	Central
Millennium Development Authority(MiDA)	Higher Heights	Ahinkwa Akpamu Agormanya	Eastern
Subscribers Capital	*TEACH 1,2,3*	Nkurakan Oterkpolu Sikabeng Kpoponya (Okotokrom) Sra Adjkpo Aqavenya	
		ChristianVillage Kisseman	Greater Accra
		Daboase	Western
Social Investment Fund (SIF) / RHEMA	Sika Rose	Dodowa Ayikuma Kordiabe Agomeda Doryumu Anyaa Pantang Abokobi Dravaga Sesemi Akporman Adjako Pokuase Katapor Ofankor Barrier Kpobiman Kenam Junction Adenta Barrier ShalomEstates	Greater Accra
Ghana Commercial Bank / EB-ACCION / MASLOC / KIVA	ExtraMile	EffiakumaZongo Fijai Hills DiabeneKrom EastTanokrom Bakado,Sekondi	Western
Energy–in-Common / People Helping People International	Green Energy Loans (GEL)	All points of service	In all Operational Regions
SPEED Ghana / Rural Finance Services Project (RFSP) / Rural Agricultural Finance Project (RAFIP)	Technical Assistance	All points of service	In all Operational Regions
World Bank Small Grants Program (WBSGP) / Ghana AIDS Response Fund (GARFUND) /Germany Development Services (DED)	Grants	All points of service	In all Operational Regions

Exhibit 6: Loan Loss Provision Rates

When reviewing trends in loan portfolio quality, the analyst should pay close attention to both absolute amounts of the past due portfolio and indicators of the past due portfolio relative to the total portfolio, because rapid growth in the portfolio can mask increases in delinquency and so dilute measures of portfolio at risk.

Loan Portfolio Status	Provisioning percent rates	
	Portfolio	Rescheduled Portfolio
Current Loans	1	20
Loans Past due 1-30 days	30	75
Loans Past due 31-60 days	50	100
Loans Past due 61-90 days	50	100
Loans Past due 91-120 days	80	100
Loans Past due 121-180 days	100	100
Loans Past due > 180 days	100	100
Loans in legal recovery < 180 days	100	100

Exhibit 7: Year-on-year inflation, January 2013 to February 2017 (Yearly change rate (%))



Source: Ghana Statistical Service

Exhibit 8: Ghana Key Policy Rate

Source: https://www.ft.com/content/35173348-ee6d-3279-b3b7-22322a39242f

Financieros sin fronteras
BUSINESS SCHOOL

MANY THANKS TO

Marco Trombetta
María Luque Calvo
Our supervisors,
for having accompanied us during this journey through Ghana and advised us for this Master project

Kraban Support Foundation
for having provided us with useful information and helped us through its collaboration.

Finacieros sin Fronteras
for having given us the unique opportunity to visit Ghana and for having been able to transfer our financial knowledge to a microfinance institution.

The group
we would like to thank all of our colleagues who took part to this adventure for the enjoyable and sharing atmosphere

The drivers
for showing us around and helping one of us negociate the price of a giraffe on the cover

ABSTRACT

The front cover picture was taken in the Art Market of Accra during the trip. The right giraffe was bought by a member of this group and then called Tamale as a reference to the Northern Ghanaian city. It will soon be proudly standing in a London flat after a 7800km trip

Yasmine **Aldeeb**
Lionel **Fernandez Alba**
Anna **Baturina**
Tiago **Timm Arend**
Emiliano **Joel Batilando**