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Thomas Yeboah, Ernestina Fredua Antoh & Emmanuel Kumi

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Strategic responses of microfinance institutions to the Coronavirus disease (COVID-19) crisis in Ghana

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ABSTRACT
This paper examines the impacts of COVID-19 on MFI operations and the response measures taken by MFIs in Ghana. Data from interviews shows that MFIs are faced with operational difficulties as a result of the crisis: inability to disburse new loans and collect loan repayments which is leading to increase in portfolios at risk, increased operational costs, and bottlenecks with non-financial service delivery. Reduction in lending and rescheduling of outstanding loan repayments, adoption of flexible working arrangements, and use of digital technologies are key response measures taken by the MFIs although the scale of implementation differed considerably by contextual factors.

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COVID-19; microfinance; strategic responses; loan repayment; Ghana

Introduction

At its core, microfinance typically involves the provision of financial services including savings, micro-loan facilities, credit, deposits, transfer payments, insurance, and micro-pensions to the poor and low-income groups to empower them to participate in economic markets and to exploit entrepreneurial opportunities through expansion or the setting up of new businesses (Yeboah et al. 2015; Antoh et al. 2016; Copestake et al. 2016). The value of credit portfolios of microfinance institutions (MFIs) was estimated to be US$124 billion reaching approximately 140 million low-income people (80% women) across the globe in 2019, an increase from 98 million in 2009 (Bull and Ogden 2020).

However, the Coronavirus disease (COVID-19) pandemic, which struck at the time when microfinance is at its historical peak, is having a devastating impact on global and national economies, with obvious implications for MFIs' operations and their clients (Bateman 2020; Malik et al. 2020). Unsurprisingly, informal workers (i.e. traders), micro entrepreneurs, and the poor who have historically benefited and continue to rely on microcredit interventions to run their ventures, are facing serious financial stress, which is a result of reduction in loan portfolios caused in part by COVID-19-inspired measures taken by government to contain and manage the spread of the pandemic (Asante and Mills 2020). Again, MFIs are also facing a severe challenge at the time when clients are unable to effectively run their businesses to generate income needed to repay loans (Brickell et al. 2020; Malik et al. 2020). The economics of microfinance require high repayment to the extent that a slight drop in repayment rates, for example from 90% to 80%, is likely to render many MFIs insolvent in less than a year (Noglo and Androuais 2015; Awaworyi Churchill 2018; Bull and Ogden 2020).

Lieberman and DiLeo (2020) argue that while the COVID-19 pandemic is causing socio-economic distress, governments and international financial institutions have been prioritising support for individuals and businesses to the neglect of MFIs despite the close connections these institutions have with low-income populations. For instance, measures such as wage and salary support for registered

CONTACT Thomas Yeboah thomas.yeboah@knust.edu.gh Bureau of Integrated Rural Development, Kwame Nkrumah University of Science and Technology, Kumasi-Ghana

formal businesses, debt relief, cash grants, and social protection for the vulnerable are likely to bypass MFIs (Lieberman and DiLeo 2020). This brings into sharp focus the vulnerability of the microfinance sector to shocks and uncertainty but also provides a window to analyse the capability of the sector to adapt to changes in the context of uncertainty and crisis.

Lieberman and DiLeo (2020) have outlined a strategic blueprint for rescuing the microfinance sector from the distress caused by the COVID-19 pandemic. The framework emphasises the need for information flow, institutional capacity building, sequencing and timing of rescue implementation process, standstill agreements, workout/restructuring, deployment of mixed financial instruments (including new capacity, debt rescheduling, and debt restructuring), and prioritisation of resources (see Lieberman and DiLeo 2020). The authors argue that the "rescue mission" will need to be led by the main actors of the microfinance ecosystem–leading MFIs, industry associations, networks, and investment funds. They remind us that "the lessons of previous crises suggest that damage can be contained, but it requires fast action, peer pressure and an intolerance for free riding and sitting on the side-lines on the pretext of bureaucratic procedure" (Lieberman and DiLeo 2020, 1). For Meagher (2020), a crisis response measure must take into account the special characteristics of microfinance, the multiplicity of institutions within the microfinance ecosystem, empathy towards vulnerable clients, consultation and communication among industry actors, and the unique risks of microcredit services. Sustaining the microfinance sector in the context of the global pandemic may require emergency liquidity facilities, recapitalisation, and concerted action by regulators, investors, public and private actors (Malik et al. 2020). The extent to which these measures are being rolled out and the dynamics of their interplay, especially at local levels, should be of great interest to researchers, policymakers, development professionals, and actors who are connected to the microfinance ecosystem.

Nevertheless, there are notably a handful of localised researchers looking specifically at the impact of the COVID-19 pandemic on the operations of MFIs and the strategic responses taken to mitigate the impacts of the pandemic (see Brickell et al. 2020; Malik et al. 2020; Zetterli 2020). Mujeri et al. (2020) report that the adoption of mobile money services to disburse loan and emergency grants, and revision of the loan distribution policy, were key measures taken by MFIs to mitigate the effects of the pandemic on their operations in Bangladesh. The Consultative Group to Assist the Poor (CGAP) has also developed a Global Pulse Survey of Microfinance Institutions to track how the pandemic is impacting on MFIs and their operations. However, while these studies are useful, their findings are aggregated at the global and regional levels with little insight into how the COVID-19 pandemic is affecting the operations of MFIs at the country level and the institutional response measures taken by MFIs to address the effects of the pandemic on their operations. This represents a gap in knowledge which this paper seeks to fill.

Against this backdrop, this paper seeks to answer the following research questions: i) how is the COVID-19 pandemic affecting the operations of MFIs in Ghana; and ii) what are the specific institutional response measures taken by MFIs to mitigate the effects of the pandemic on their operations in Ghana? Answers to these questions are drawn from a qualitative case-study research undertaken with three MFIs in the Kumasi Metropolitan Area, Ghana. Given the qualitative nature of this study, the goal of this paper is not to make generalisations using the case of the three MFIs but rather to develop an in-depth understanding of how the COVID-19 pandemic has affected the operations of MFIs and the strategic responses undertaken to mitigate the effects of the pandemic. Our empirical findings indicate that MFIs are faced with a number of operational difficulties as a result of the crisis such as inability to disburse new loans and collect loan repayments which is leading to increase in portfolios at risk, as well as increased operational costs and bottlenecks with non-financial service delivery (e.g. group meetings and training programmes). We also found that measures such as reduction in lending and restructuring of outstanding loan repayments, adoption of flexible internal working arrangements, and use of mobile money technology are key response measures taken by the MFIs. However, the scale of implementation and who among the clients of MFIs benefited from these measures differed considerably by contextual factors.

This article offers two contributions to the literature. First, this is one of the first studies to examine how the COVID-19 pandemic has affected the operations of MFIs, the institutional response measures employed to ensure organisational sustainability from the perspective of sub-Saharan Africa. While the emerging literature on COVID-19 and MFIs has offered some useful insights, they tend to focus on the impact of the pandemic on MFI clients and national economies (see, for example, Bateman 2020; Brickell et al. 2020; Malik et al. 2020), largely neglecting the institutional responses of MFIs. Secondly, the paper provides empirical evidence that enhances the understanding of the impact of COVID-19 on MFIs operations and how they survive the crisis from a localised perspective.

The remainder of the paper is organised as follows: Section 2 discusses the research context by providing an overview of the microfinance sector and the COVID-19 pandemic in Ghana. Next, we present the research methodology in Section 3, followed by the research findings in section 4. The last section discusses the key findings, and concludes with some identified implications for policy and practice.

Setting the context: the microfinance sector and the COVID-19 pandemic in Ghana

Microfinance sector in Ghana

Microfinance activities in Ghana are not new, given that, historically, Ghanaians save and take loans from formal and informal financial institutions (Appietu, Dankwa, and Caesar 2020). The microfinance sector in the country has grown over the past two decades due to the establishment of policy and regulatory frameworks coupled with donor-supported initiatives and programmes (World Bank 2016). While comprehensive data on the number of MFIs operating in Ghana are lacking, there were 484 licensed MFIs, 12 financial NGOs, and 70 money lending companies in 2018 (Bank of Ghana 2021). According to the Bank of Ghana (2021), there are 137 registered deposit-taking MFIs, 12 FNGOs, 31 microcredit institutions, 144 rural and community banks (RCBs), and 25 savings and loans as of February 2021, and the total of assets of some 253 MFIs was estimated at GH¢999 million (US$193.5 million) (Oxford Business Group 2021). The decline in the number of registered MFIs in the country is attributed to the financial sector "clean-up exercise" by the Bank of Ghana which started in August 2017. The exercise led to the closure of some financial institutions whose existence posed a threat to the interests of depositors. Notwithstanding this, MFIs in the country have over the years facilitated financial inclusion and helped many including the poor to establish small and medium scale enterprises. The World Bank's (2021) global FINDEX data estimates that, currently, 58% of all adults in Ghana have accounts at financial institutions including MFIs, an increase from 36% in 2014. In 2013, there were about 8 million clients who had been reached by MFIs in the country (World Bank 2016). Although the microfinance sector in Ghana managed to "withstand the storm" associated with the financial sector clean-up (Ofori 2020), the COVID-19 pandemic has brought new challenges and uncertainty for MFIs and their clients.

COVID-19 pandemic and the microfinance sector in Ghana

The first reported cases of COVID-19 in Ghana were recorded on 12 March 2020. By 31 January 2021, the country had recorded 68,559 cases out of which 62,340 had recovered with 416 deaths (Ghana Health Service 2021). Following the first confirmed cases, the Government of Ghana (GoG) declared a Health Emergency, as stipulated in Section 169 of the Public Health Act, 2012 (Act 851), and instituted a number of policies and legislations such as the imposition of the Restriction Act, 2020 (Act 1012), and the Restrictions (COVID-19) Instrument, 2020 (E.I. 64), as part of measures to contain the spread of the virus (Haider et al. 2020).

As part of the Imposition of Restriction Acts, 2020 (Act 1012), the GoG on 27 March 2020 introduced a three-week partial lockdown in Greater Accra, Tema, Kasoa, and Greater Kumasi Metropolis.

According to Haider et al. (2020), the government adopted three forms of lockdowns, namely: i) geographical containment involving the closure of national borders and travel restrictions; ii) closures and prohibitions, which included the prohibition of the gathering of more than 25 people and the closure of schools and places of worship; and iii) home confinements. Although the partial lockdown was enforced in the restricted areas, there were some exemptions. For instance, some businesses such as banks and MFIs were allowed to operate albeit with minimal staff and strict adherence to COVID-19 protocols. In addition, people were allowed to go out for essential items from shops and markets (Asante and Mills 2020).

Specifically, in terms of the microfinance sector, empirical evidence on the effects of COVID-19 on the sector's operations in Ghana is lacking. Nevertheless, the Bank of Ghana (2020) reports that MFIs are faced with liquidity problems especially during the COVID-19 pandemic because of their inability to recover loans from customers. Moreover, many MFIs have granted loan moratoriums to their customers for a period of three to six months, which is leading to liquidity challenges (Darko 2020).

There have been a number of policy responses from the state to support microfinance sectors during the pandemic. First, the GoG through the Central Bank reduced the Primary Reserves for savings and loans and microfinance companies from 8% to 6% while that of RCBs was reduced by 200 basis points (Bank of Ghana 2020). The Central Bank again provided liquidity support from ARB Apex Bank to savings and loans, microfinance companies, and RCBs facing liquidity challenges (Bank of Ghana 2020), although many MFIs have complained of not benefiting from this initiative. In addition, the Bank of Ghana has extended the deadline for meeting the new capital requirement to December 2021 for savings and loans, MFIs, and RCBs. In order to make loan classification and its associated repayment conditions for MFIs less stringent, all loan repayments by MFIs that were due for up to 30 days were considered current (Bank of Ghana 2020).

Research sites, methods, and data

Research sites and profile of selected mFis

The research was undertaken in the Kumasi Metropolitan Area (KMA) of Ghana. The strategic location and centrality of Kumasi as a transit zone has assured its vital role in the distribution of goods and services within Ghana and neighbouring West African countries (Ghana Statistical Service 2014). The Kumasi Municipality is the second biggest city in Ghana with concentration of small-scale industries and economic activities including food processing, retail in fabrics and garments, street vending, catering (food and drinks), and market trade. The concentration of these economic activities has in large part contributed to the growth in the number of MFI institutions in the Municipality (Mintah, Attefah, and Amoako-Agyeman 2014; Takyi 2014). The Municipality is host to different types of MFIs from formal suppliers (e.g. savings and loans, rural and community banks, commercial banks), semi-formal suppliers (e.g. cooperatives, financial non-governmental organisations, and credit unions), to informal suppliers of microfinance (e.g. Susu collectors, money lenders, savings and credit unions) (Takyi 2014).

Three microfinance institutions including Sinabi Aba Savings and Loans (SASL), Opportunity International Savings and Loans Limited (hereafter Opportunity International), and Impact Microfinance were purposively selected for this study. The criteria for selecting the MFIs were: i) that the MFI should have been in existence for at least three years prior to COVID-19 and was still operating during the COVID-19 crisis; ii) the MFI should have clients in the Metropolis in specific sectors whose businesses were greatly affected (e.g. education, manufacturing, hospitality, etc.) and sectors that were less affected (e.g. the beverages and food industry) by the COVID-19 pandemic restrictions such as lockdowns and; iii) the MFI should provide services relating to either the disbursement of loans, collecting savings, or deposit mobilisation. The three MFIs were therefore selected to represent diversity in the MFI ecosystem (i.e. in terms of size, number of years in existence, type of services and products, and client's size.). For example, SASL and Opportunity International are large and medium-sized MFIs with relatively huge customer base and provide a range of services including loans, savings, and deposit mobilisation. On the other hand, Impact Microfinance is a fairly small institution with a relatively small customer base that provides only a loan service for its clients.

SASL is a non-bank financial institution licensed under the Non-Bank Financial Institution Act 2018 (Act 774), authorised to carry out the business of savings and loans. It started as an NGO in 1994 but was converted into a savings and loans in 2013. The institution offers a variety of loans and savings products, and operates in 44 branches spread across the 16 administrative regions of Ghana. As at the end of 2019, SASL had a total of 327, 295 clients comprising of 245,471 females and 81,824 males. Sinapi Aba Trust's developmental activities focus on education, the Youth Apprenticeship Programme (YAP), transformation (capacity building), agriculture, as well as water sanitation and hygiene (WASH). As of September 2020, the company had loan deposits of over GH¢ 120 million (US$ 22 million) (Sinapi Aba Trust 2021).

Like SASL, Opportunity International is a non-bank financial institution that provides financial services to help improve the lives of low-income populations. It was licensed by the Bank of Ghana in 2004, and has since then been delivering transformational financial services to help transform the lives of clients. It operates a business model that is not only transformational, but also profitable, sustainable, and very fast growing. It places a premium on understanding the needs of micro, small, and medium size businesses. As of 2019, the institution had about 543,657 clients, with nearly 70 percent females (Opportunity International 2021).

In contrast to SASL and Opportunity International, Impact Microfinance is a relatively small microcredit institution which was incorporated in 2009. The institution has a mission to provide microfinance services to the less privileged in society to change their lives and empower them to impact their society. While Impact Microfinance has been licensed by the Bank of Ghana as a tier two deposit-taking institution, it only engages in lending and does not accept or collect deposits from its clients or the general public. It currently operates one branch, in Kumasi, with a customer base of 2,335, out of which females constitute 65% (Impact Microfinance 2020).

Research design and data collection

Given that our goal was to develop an understanding of how the COVID-19 pandemic has affected the operations of MFIs and the strategic response measures taken to mitigate the situation, the research employed a qualitative research design involving semi-structured interviews with 33 key informants including 15 senior management officials and 18 field officers/relationship officers of the three microfinance institutions. It is worth clarifying that given that the focus of this study is on the institutions (i.e. MFIs), we did not include the perspectives of the beneficiaries or clients of the MFIs in this paper. The perspectives of the beneficiaries or clients on how the pandemic has affected their businesses will be the focus of another paper. This will provide nuanced perspectives into understanding the specific sectors that were hard hit by the COVID-19 pandemic.

Data collection for this research took place between October 2020 and January 2021. The purposive sampling technique was used in selecting key informants including the senior management officials and relationship officers of the MFIs. The senior management officials included Executive Directors and Branch Managers. These informants were chosen because they were in the best position to provide adequate information about how the pandemic has affected their operations and how they had mitigated the effects. Thus, they played key roles in decision-making at the organisational level. On the other hand, the relationship or field officers were selected because they serve as intermediaries between the MFIs and the clients or beneficiaries and have first hand experience of how the pandemic has affected the businesses of the clients. The use of purposive sampling was therefore important in that it allowed us to identify and select key informants who could be classified as "information-rich cases"–i.e. those who were deemed appropriate to respond to key issues of interest to facilitate the development of a better understanding of the understudied phenomenon (Palinkas et al. 2015).

An in-depth semi-structured interview guide was employed in eliciting information from the key informants. The interview guide contained open questions including: i) background information, such as gender, age, number of years the participant has been with his or her organisation, position in the organisation; ii) operations of the MFIs prior to the onset of COVID-19; iii) various ways in which COVID-19 has impacted on the operations of the MFIs; and iv) the strategic response measures taken by the MFIs to mitigate the impact of the pandemic. The semi-structured interview approach allowed us to use both focused questions and probes in eliciting the perspectives of the key informants on the issues under discussion. The use of in-depth, semi-structured interviews allowed us to gain deeper insights into the perspective of key informants regarding the impact of the COVID-19 pandemic on the operations of the MFIs and the responses undertaken to mitigate the impact. The interviews were conducted in a relaxed, open, and informal way, which allowed us to gain deeper insight into the perspective of the key informants. All interviews were conducted in English, and on average, each interview lasted between 40 and 75 min. Verbal informed consent and permission was sought to record all interviews with a digital audio recorder.

Data analysis

The recorded interviews were transcribed and verified against the recorded audio files and field notes to enhance accuracy in the data for analysis. The transcribed interviews were then coded using NVivo 12, a qualitative software for preparing and organising interviews for analysis. The coding process involved assigning words to phrases, quotations and chunks of the textual data and this helped to sort, reduce and distil the content of the interviews. The coding process was iterative in that it involved reading and re-reading the interview transcripts, revising, re-organising codes and relating the data to questions that were asked during field work. The next step involved employing the reflexive thematic analysis technique to analyse the qualitative data. This approach to thematic analysis involves the centrality of researcher's subjectivity and reflexivity. It also involves six phases of data analysis: i) familiarisation coding; ii) generating initial codes; iii) searching for themes; iv) reviewing themes; v) refining, defining and naming themes; and vi) writing up (Braun and Clarke 2006; Braun and Clarke 2019). The validity and credibility of the findings were established using multiple sources of evidence from the interview data, peer debriefing, and researchers' reflexivity which helped in avoiding bias and pre-conceptions during data analysis.

Findings

Impact of cOvId-19 on the operations of microfinance institutions

"Business as usual" before the cOvId-19 pandemic

In order to better appreciate the extent to which the COVID-19 pandemic has impacted on the operations of the MFIs, it will be useful to set the context of their operations in the pre-COVID-19 era. An important theme that emerged from the interviews was that the operations of the MFIs studied were "normal pre-COVID-19". Interviewees narrated how they were going about their activities in the normal way including disbursement of loans, collection of deposits, repayments, remittance services, capacity building, and training for clients (mostly small and medium scale enterprises) to maintain, grow, and sustain their enterprises. Key informants narrated that they were in high expectations of a promising business year to the extent that they were looking forward to growth in the number of clients, loans, and deposit portfolios. Their high sense of expectation was rooted in what had happened during the financial sector clean-up exercise by the Bank of Ghana between late 2017 and early 2019. In fact, it was reported by the officials of the three MFIs that they had no issues or challenges that could have led to the revocation of their license by the Bank of Ghana, hence, they were expecting 2020 in the words of one respondent "to be a good year given that the organisation was within its target in the first quarter of 2020" (Interview, MFI official, 19th October 2020). Similarly, a field officer interviewed explained that:

> Before the COVID-19 came, business was very normal. We were able to move out to collect repayments from customers because they were able to do their business. (Interview, Field Officer, Impact Microfinance)

While business was normal for the MFIs pre-COVID-19, the key informants interviewed were quick to point out the fear and panic that had engulfed the MFI sector following the financial sector clean-up which started in 2017 and led to the eventual closure of some banks and microcredit institutions by the Central Bank of Ghana. The clean-up exercise brought in its wake a moral panic and lack of trust in the banking system and the microfinance sector. Interviewees narrated that while the financial sector especially MFIs was recovering from the effects of the clean-up exercise on their operations, they were hit by the COVID-19 pandemic which affected all their financial projections. This was explained by an official as follows:

> We started 2019 with the clean-up of the micro finance sector and more than 300 microfinance companies were all closed […] but the dust started settling in the last quarter of 2019. So we were very confident that having so many customers in the system of other banks that had unfortunately failed, we will have new customers coming our way and it would have opened an opportunity for us. So, our 2020 budget was very ambitious because we knew we were going to take advantage of those times only to be hit by the COVID-19 pandemic. (Interview, Senior Official, SASL)

Impacts of the cOvId-19 pandemic on repayment of loans

The posture of optimism of business recovery and expectations with which the understudied MFIs envisaged the year ahead soon became an illusion following the onset of the COVID-19 pandemic in Ghana. Interviewees described how the onset of COVID-19 and its associated lockdowns significantly impacted their operations. The most consistent theme of the impact of COVID-19 on the MFIs relates to their inability to collect loan repayments as narrated by a key informant:

> We were hard hit by COVID-19. The repayment went down as compared to previous years […] You will realise that between April and May 2020, the total repayment that we collected went down and it started picking up when the lockdown was lifted. But we have a few customers who have not come out of it [the COVID-19 pandemic]. Those who were into shoes, materials and cosmetics were hard hit by the pandemic because the lockdown affected their businesses. (Interview, Senior Official, Impact Microfinance)

What we gathered from the interviews was that the lockdown, border closures, and the fear of infection associated with COVID-19 particularly in its early stages in Ghana had meant that many people including MFI clients could not do business as expected and this significantly affected the ability of MFIs to collect their loan repayments. A relationship officer interviewed at Opportunity International narrated that when the partial lockdown was introduced in Kumasi, many of their clients chose to travel to their home towns, while others completely shut down their businesses and this affected their ability to retrieve loans from clients. Similarly, a SASL official also indicated that:

> In March 2020, unfortunately the lockdown started. It was a severe blow to us because our clients in group lending couldn't meet due to the lockdown. The biggest effect is about loans we give to the schools. Schools have even still not reopened [as of November 2020] and because of that we have all these chunks of monies not repaid. And we have had to reschedule over GH¢10 million [US$ 1.8 million) for school loans alone. (Interview, Official, SASL)

Interviewees suggested that the impact of the COVID-19 pandemic on MFIs was not proportionally felt as clients in the pharmaceutical and food sectors (i.e. essential services) were not severely hit because they were still operating their businesses during the partial lockdown, as explained by an interviewee:

> I must confess to you that some clients did not feel the impact of the COVID-19 at all, because it depends on where you are or the work you do. So, some clients like food sellers did not feel the impact of the lockdown because of the nature of their business which requires that every time people are in demand of their services.

> Maybe, the rate at which they were buying reduced, but it did not affect that much. Also, clients who were into soap and detergent making were still having business even during the lockdown. (Interview, Official, Impact Microfinance)

In contrast, data collected from the three MFIs shows that clients, particularly those in the textile industry, garments, spare parts, private schools, transport, and those engaged in the buying and selling of household items, particularly those who travel to China and Togo, were severely hit due to the closure of Ghana's international borders: hence, they were unable to follow their repayment schedules.

Moreover, private schools are important beneficiaries, and among all the clients that the MFIs served, those who operate private school appeared to have been hard hit following the closure of schools between March 2020 and December 2020. For example, an interviewee of SASL narrated that they had developed a partnership with some International Non-governmental Organisations (INGOs) under "EDIFY Programme" to build the capacity of less endowed schools in terms of infrastructural facilities. The official said that most of the private schools served by the MFI were enrolled on the EDIFY programme. Although the official could not provide the amount of loan portfolio disbursed through the EDIFY programme, the closure of schools nationwide meant that they could not retrieve a huge chunk of loans distributed to schools through the programme:

> The first biggest impact was the school segment of our portfolio. You know schools were closed down, so the many clients who had taken loans for schools and the value chain around school were negatively impacted. So, we had a situation where the quality of the school portfolio started getting affected. (Interview, Senior Official, SASL)

A Relationship Officer interviewed at one of the MFIs also mentioned that they were not able to retrieve a large share of the School Improvement Loan disbursed to private schools owing to their closure:

> We could not retrieve much of the loans that we gave to the schools because they were closed. Before the COVID-19 pandemic, things were okay in terms of our productivity because in December 2019, we earned a loan portfolio of GH¢ 7 million (US$1.27 million) [… .] But with the onset of COVID-19, we were not able to retrieve 70% of our loans. (Interview, a Relationship Officer)

A Senior Official of SASL also mentioned that despite maintaining a good standard of portfolio at risk (PAR) over the years, the pandemic was gradually putting their PAR in danger:

> With credit, you're expecting 100% of your money and consistently, we've been doing quite well. The international bench mark for PAR is around 5%. Although we've been consistent over the years, with COVID-19, we couldn't hold it and so we went as high as 8.3% PAR. (Interview, Senior Official, SASL)

Overall, the inability to collect loan repayments had put enormous pressure on the MFIs to repay their own investors, and to fund their own on going operations. In one MFI, the average loan repayment rate between March and June 2020 was around 75%. In another MFI, the loan recovery rate during the lockdown period in March and April 2020 was reported as 30% but this increased sharply to 90% in October 2020 following the easing of lockdown restrictions in the country, although some officials indicated that it took them more effort to recover their loans because of the loss of sales by their clients (Interview, Loan Officer). While shareholders and lenders (both foreign and local) of the MFIs were quite concerned about the safety of their investments, they also appreciated the magnitude of the problem brought about by COVID-19 on the MFIs, as explained by one senior official:

> For both shareholders and lenders, they were quite concerned. The foreign and local lenders were trying to see how we were surviving and indirectly asking you "how safe is our money"? But they appreciate the situation [… .] At the end of the day, we didn't pay any dividend but their money is safe. So, many of them [shareholders] appreciate it and they are even confident that maybe 2021 things would be better. (Interview, Official, SASL)

COVID-19 and deposit taking by MFIs

In addition to the inability of loan officers to collect repayments, there was a significant drop in the deposits taken by MFIs especially between April and July 2021 except for Impact Microcredit, which does not engage in deposit taking. This challenge stemmed largely from the inability of their clients to do business and the fact that it was exceptionally challenging for field officers to move out and collect deposits on a daily basis owing to lockdown and fear of infection. An official of one MFI said:

> Before the COVID-19, things were okay in terms of our productivity because in December 2019, we earned a loan portfolio of GH¢7 million (US$1.27 million). In February 2020, we had a deposit portfolio of GH¢ 8 million (US $1.45 million). However, with the onset of the COVID-19 pandemic and its associated partial lockdown, our portfolio dropped to GH ¢6.4 million (US$1.16 million). (Interview, MFI Official)

Another official added:

> Our deposit has reduced significantly. It is difficult to go out to collect deposits. Most of the clients were struggling with their businesses so when you go to them, they will say they don't have money. I could understand them because business had slowed down everywhere in the country. (Interview, Field Officer, Impact Microfinance)

For the field officers, the greatest challenge posed by the COVID-19 pandemic had to do with meeting the monthly minimum targets in relation to deposits taken and collection of repayments. This in turn affected the field officers given that apart from their basic salary, they are entitled to commission if they are able to meet their monthly targets. This quotation sums up the frustration experienced by field officers:

> It is not easy. Before the COVID-19 came, we were able to meet our monthly targets. But now, it is not easy because when you visit the clients to collect repayment and deposit, they will tell you there is no money even for food. Our work is such that if you meet your target, you receive an increment in salary in the form of a commission. Unfortunately, with the COVID-19, it is difficult to meet the targets, so our salaries remain the same without any commission so I cannot plan properly with this because I only get the basic salary. (Interview, Field Officer, SASL)

Other operational challenges resulting from the COVID-19 pandemic

Other areas of operational difficulties brought by the COVID-19 pandemic include suspension of group meetings, business management and training programmes for clients, operational challenges for field staff and relationship officers, and increase in the cost of operations as a result of the need to procure personal protective equipment (PPEs) for staff and clients of the institutions, which had not been anticipated by the management of the MFIs. For instance, one senior official explained the increase in administrative costs resulting from COVID-19 as follows:

> When our revenue and mobilisation efforts declined, administrative costs also increased. We had some health care bills as some staff were infected with the virus and we also had to buy some COVID-19 protocol items like Veronica buckets (hand washing buckets) and temperature guns. It's a significant increase in our administrative costs as we had to distribute it to all our branches across the country. (Interview, Senior Official, SASL)

Speaking about suspension of group meetings, an official of Opportunity International emphasised:

> The group meetings were very important. It is the time we meet to discuss repayments, and to know which clients are struggling with their repayments. We also provide information for the clients on how they can manage their businesses, savings, budgets and investments. But when the COVID-19 pandemic started, we had to put all these on hold. (Interview, Relationship Officer, Opportunity International)

Institutional responses to the COVID-19 pandemic

Interview data reveal three common institutional responses implemented by the MFIs to mitigate the impact of the COVID-19 pandemic on their operations: i) the restructuring of loans and reduction in lending, ii) flexible internal operational arrangements, and iii) use of digital platforms for operations.

Rescheduling of loans and reduction in lending

A consistent theme from all the interviews is that the rescheduling of loans and reduction in lending to clients appeared to have been the most important measure taken by the MFIs during the pandemic. All the three MFIs studied were forced upon request from clients to reschedule outstanding loan repayments. However, this measure was not applied to all clients and there was heterogeneity in the loan rescheduling policies of the MFIs. The rescheduling process involved a careful assessment of the sectors of the economy within which the clients were operating, and the individual circumstances of the clients in question. For example, in contrast to clients in the food and pharmaceutical sectors who were still operating their businesses irrespective of the pandemic and therefore did not have their loans rescheduled, private schools, hairdressers, and auto mechanics (i.e. non-essential services providers) requested for and had their loan repayments re-scheduled mainly because their operations were closed during the partial lockdown period.

While the normal practice has been that rescheduling of loans generally would attract a processing fee of 3.5% of the loan taken and additional interest on the outstanding amount of loan to be paid, interviewees initially claimed that all clients who requested re-scheduling were made to pay no extra interest. For instance, in the case of SASL, the loans of clients in the private schools' value chain were rescheduled three times without any extra costs. According to interviewees, the first reschedule was undertaken in June 2020, the second in September 2020, and the third in January 2021 (Interview, Senior Official, SASL). Speaking about the rescheduling of loans, an official of one of the MFIs explained:

> Unfortunately for us, the lockdown areas (i.e. Kumasi, Accra) are where we have our biggest activities. So, we had a situation where more than GH¢ 10 million portfolios had to be rescheduled which was quite huge on our finances given that over 900 clients and businesses were affected. (Interview, MFI Official)

Further probing of the interviewees revealed that some clients particularly those engaged in commerce (e.g. traders, food sellers, and retail businesses) who requested for repayment were made to pay additional interest. The reason for this is carefully articulated in the narration by an official of one MFI who argued that:

> "For those who are doing the normal commerce, we can't do it [rescheduling] for free. You pay additional interest because business is ongoing". (Interview, MFI Official)

Another official also noted that they had an obligation to repay their lenders and investors, which also compelled them to add additional interest on rescheduling of loans for clients who were still engaged in business but requested loan rescheduling. In fact, the officer explained that despite the pandemic, MFIs are obliged to pay interest on their borrowings from commercial banks.

Overall, given the decline in income, the MFIs chose to reduce the amount of money they could lend and, in some cases, stopped lending altogether. Interviewees noted that they carefully considered application for additional loans from their clients to the extent that any request for a loan could only be granted provided there was enough evidence to show that the said client could repay within a stimulated timeframe. Customers, particularly those in food retail business, pharmaceuticals, and sale of hygiene products were more likely to receive additional lending compared to those in private schools, clothing, and mechanised businesses. For instance, an officer indicated that:

> "We had to be cautious in giving out loans. We looked at the type of business when you apply for loans during the pandemic. So, we put some SMEs, schools, transport and sanitation clients on hold. We didn't disburse loans to them again". (Interview, MFI Official)

Moreover, due to some perceived challenges with respect to repayments, there were instances where the MFIs were reluctant to lend to some clients (e.g. those engaged in sale of cosmetics) who were keen to access additional loans.

Flexibility with internal working arrangements

Like other institutions and businesses, MFIs were subjected to social distancing and lockdown measures which necessitated the need for adjusting internal working arrangements. All the understudied MFIs suggested that despite the challenges they faced, they did not lay off any staff as explained by an official who said that "we all had our salaries intact and none of our staff went home because of COVID-19" (Interview, MFI Official). Nonetheless, an official of Impact Microfinance mentioned that the organisation had planned to recruit additional staff but management halted the decision on recruitment due to the impact of COVID-19 on their finances.

Importantly, however, lockdown and social distancing requirements compelled all the MFIs to institute a rotational policy where some staff were required to work from home and in smaller teams taking turns in the office with no implications on salaries. Speaking about the working arrangements put in place by management, an official explained that:

> With our branch, some people had to stay home. You only come to the office if you have repayments to report. And especially with the customer service department, we have two staff. So, one has to come to work for three days and the other will come for two days and vice versa. The cashiers are two, one had to be there and one had to go. (Interview, Official, Opportunity International)

What we gathered from the interviews was that key workers, including senior management personnel and frontline workers (cashiers), would mostly go to the office while relationship officers (e.g. loan recovery officers) worked mostly from home. Staff of the MFIs who continued to work out of their offices were mandated to maintain strict social distancing and other precautionary measures such as the wearing of masks and the frequent use of sanitizers. However, for field officers, working from home was quite challenging because they had to call clients to make repayments through mobile money platforms. While the pandemic did not lead to the permanent closure of branches, our interview data suggests that there were occasions where the MFIs had to close some of their branches due to reported cases of COVID-19. For instance, an official mentioned that there were 38 cases of COVID-19 reported in the organisation, which led to closure of some branches for a period. This was done with clear communication to clients to minimise panic withdrawals:

> We began having COVID-19 cases in some of our branches and we needed to close down those branches. I remember we closed a couple of branches on two different occasions. But we had to make sure the communication was managed such that it doesn't cause panic withdrawals that can cause an issue to the company. (Interview, Official, SASL)

Use of digital platforms and mobile money service for operations

Another important theme generated from the interviews relates to the use of digital platforms and mobile money services to facilitate communication and operations. All the three understudied MFIs used digital platforms such as Google Teams and Zoom to conduct staff meetings and training during the lockdown period. In fact, a concern raised by interviewees was that there were tensions in their attempt to go digital given that their business model required physical contact with clients. For instance, some field officers explained that they had developed personal relationships with their clients and therefore just relying on digital platforms limited their interactions with clients which had the potential of resulting in loss of clients. As part of their "digitisation drive", MFIs SASL and Opportunity International had developed mobile apps or Unstructured Supplementary Service Data (USSD) codes which were used as a mobile banking system and this allowed clients to make payments and withdraw money from their accounts:

> Opportunity International has a platform called Opportunity Mobile where clients can sit at home and make transactions all the time. With the Opportunity Mobile, you can transfer money from your account to your wallet and in the same way, you can make deposits into your account. (Interview, Official, Opportunity International)

> We have the Sinapi Mobile application, it's just like operating your mobile money wallet just that this time it is connected to your account. So, if you have mobile money, instead of coming to the banking halls, you withdraw from your account to your mobile money wallet then you can use it. You don't have to go to the banking halls. And it helped during the lockdown for those who had money since they could still withdraw from their homes. (Senior Official, SASL)

The use of mobile money services was particularly convenient during the partial lockdown. Interviewees mentioned that the platform allowed clients to do transactions from the comfort of their homes without having to risk moving out to the premises of the MFIs. In addition, we gathered that constant communication via phone with clients was maintained throughout the lockdown period. It was also explained that all the MFIs used their digital platforms to communicate messages to their clients about the pandemic.

Discussion

One of the central policy challenges posed by the COVID-19 pandemic has been how to protect and maintain essential economic activities, particularly, of low-income groups and the financial institutions that are at the forefront of serving them. We have established through this study that the COVID-19 pandemic has caused a sharp decline in economic activities and limited operations for businesses with implications for the operations of MFIs. Mirroring what has been reported elsewhere (see Malik et al. 2020; Rahman and Matin 2020), the scale of the impact of the COVID-19 pandemic weighs disproportionately on self-employed and micro-entrepreneurs who are the dominant client segment of microfinance institutions.

The research findings demonstrate that the understudied MFIs were positive with a high sense of optimism of improvement in business performance in 2020 but soon became disenchanted owing to the COVID-19 pandemic which led to the imposition of partial lockdown in Kumasi, Accra, Tema, and Kasoa, and the observance of social distancing protocols across the country. These led to several operational challenges of which the most commonly reported was the inability of the MFIs to retrieve outstanding loans from clients (see also Mujeri et al. 2020). The decline in repayment rates or inability to retrieve outstanding loans is linked largely to the struggles of borrowers to remain productive in the context of precipitous income shocks. As widely documented in the research literature, the financial sustainability and survival of MFIs is dependent on the ability of their clients to run their ventures effectively and repay loans, and the fall in repayment rates over time is likely to result in portfolios at risk, and may render MFIs insolvent (see for example, Awaworyi Churchill 2018; Malik et al. 2020). The inability of clients of MFIs to repay loans had implications on inflows, and in particular, had put enormous pressure on the MFIs to repay their own lenders, investors, and shareholders. In effect, the clients' short-term economic crisis and income shocks are likely to engender a liquidity crunch for investors and lenders (Malik et al. 2020).

The sudden and complex nature of the COVID-19 pandemic, which differs in many respects from any global crisis experienced in times past, suggests that the MFIs had no well-laid emergency response plans. Nevertheless, the MFIs studied appeared to have responded quite well to the operational difficulties brought about by the pandemic on their operations. Reflecting the findings of recent emerging research (see Dąbrowska, Koryński, and Pytkowska 2020; Malik et al. 2020), our study demonstrates that restructuring of loan repayments, reduction in lending portfolio, changes to internal working arrangements, as well as use of digital and mobile money technology to reach clients, were key response measures taken by the MFIs studied during the pandemic. While these measures could well be described as spontaneous, they nevertheless allowed the MFIs to continue their operations albeit at a reduced scale. However, certain contextual factors mediated how these measures were rolled out. For example, the rescheduling of a loan was with careful consideration of the circumstances of the clients in question. Our findings show that clients of private schools who appeared to have suffered severely as a result of the closure of schools throughout 2020 had their loans restructured with no interest. In contrast, not all clients who worked in the commerce or food sectors had their loans rescheduled and any request for loan restructuring came with additional interest. Again, the reduction in lending was also done with careful attention to the needs and circumstances of the client in question, to the extent that those who worked outside the pharmaceutical or food economies struggled to secure additional loans to cope with the challenges faced. This demonstrates a clear heterogeneity in the responses employed by MFIs in dealing with uncertainties brought by the COVID-19 pandemic on their operations. Thus, while the MFIs might have to some extent managed to survive the pandemic, they remained too frail to extend additional support for some clients, and this raises fundamental questions. It also points to a shortfall in the social mission of MFIs to support low-income populations running small-scale businesses particularly in times of crisis (see also Bateman 2020; Dąbrowska, Koryński, and Pytkowska 2020). This contradicts the findings of Zheng and Zhang (2021) when they report that despite the negative impacts of the COVID-19 on MFI's financial efficiency, social efficiency or performance increased due to the ability to reach out to poor and low-income households. A plausible explanation for the differences in findings relates to the diversity of contexts and the research methodology used. Whereas Zheng and Zhang's (2021) quantitative study focused on several countries in Asia (e.g. Nepal, Cambodia, Indonesia, Philippines, Laos, Fiji, Kazakhstan, among others), with data from several MFI institutions, the present study focused on three MFIs in Ghana using qualitative data from a small sample of MFIs. Again, Zheng and Zhang's (2021) study focused on assessing quantitatively how the COVID-19 pandemic affected the social and economic efficiency of MFIs which was outside the scope of this paper.

Nonetheless, the decision by the MFIs not to lay off workers, routine changes to working schedules, and the use of virtual technologies allowed them to explore new ways of reaching, maintaining, and staying in touch with clients. The fact that many staff of the MFIs studied were tasked to work from home brought a shift in workflows and communication channels. Essentially, communication via digital platforms offered space for the MFIs to discuss repayment schedules with clients, and the use of mobile money technology facilitated clients' access to their deposits and to make repayments.

However, working from home mostly through virtual platforms was challenging for loan officers who appeared to be somewhat habituated to being in the field and having direct interaction with clients (see also Dąbrowska, Koryński, and Pytkowska 2020). Moreover, given the lack of investment in technological investments by MFIs especially in the areas of digital financial services and mobile money due to their capital-intensive nature, many of our interviewees while being optimistic of their ability to reach out to clients, were also wary about the potential of losing their clients due to the absence of face-to-face interactions.

Moreover, the way in which loan officers work and are paid is based on large incentives intended to motivate hard work and to maximise efforts (Malik et al. 2020). In the scheme of work of most MFIs, greater share of the total income of loan officers is composed of performance-related payments which are derived largely from collection of existing loan repayments and disbursement of new loans (Malik et al. 2020). This view which is typically referred to as "high-powered incentives" has the advantage of enhancing organisational efficiency particularly in normal times. Informed by this, Malik et al. (2020) note that the uncertainty brought by COVID-19 has meant that high powered incentives may be difficult to implement in reality. In this respect, Malik et al. (2020) argue for "low powered incentives" where field officers would be entitled to a steady income that should not necessarily be tied to repayment collection or disbursement of new loans. Nevertheless, our case study demonstrates that "high powered incentives" are still in place, and loan officers were still in close contact with clients often via mobile phone to demand repayments despite the adoption of a policy of rescheduling loan repayments for clients.

Conclusion

In conclusion, while the strategic responses employed by the MFIs including restructuring of loan repayments, reduction in lending, flexibility with internal working arrangements, and use of mobile phone technology to reach out to clients have allowed them to remain operational up to this stage, contextual factors such as the sector in which the clients operated was important in determining who benefited from these measures. In fact, the strategic responses have allowed the MFIs to remain operational in the interim. However, their long-term sustainability is likely to be shaped by how long the pandemic continues to cause havoc for socio-economic systems; the ability of clients to return to full scale business; the willingness and capacity of clients to eventually make good on their loan repayment obligations; the willingness on the part of investors, lenders, and shareholders to be patient and forgiving; and how much financial cushioning MFIs may receive from external sources (Malik et al. 2020).

Our findings also reaffirm emerging research that has emphasised the need for government and policy regulators to prioritise relief packages to low-income populations including MFI clients who are at risk and have lost their jobs or businesses as a result of the COVID-19 pandemic. This package can take the form of cash transfers and grants to small- and medium-scale enterprises. Finally, the findings of this research also call for increasing MFIs' access to liquidity. With a drop in repayment rates, there are potentials for MFIs to become constrained liquidity-wise and this could affect any potential spark in deposit withdrawals, as has been experienced in the past (Meagher 2020). The downstream effects of potential liquidity constraints such as the inability of SMEs to meet liquidity needs, the destruction of value chains and production systems, and the shortage of food and other basic necessities are likely to be cruelly destructive. Direct support in the form of tax relief, recapitalisation, credit guarantees and transfers to cover operational costs, and extension of Central Bank Liquidity to MFIs is urgently needed to allow them to survive the operational challenges brought about by the COVID-19 pandemic while remaining in business to better serve low-income populations.

Disclosure statement

No potential conflict of interest was reported by the authors.

Notes on Contributors

Thomas Yeboah serves as a Research Fellow with the Bureau of Integrated Rural Development, Kwame Nkrumah University of Science and Technology. Thomas' research focuses on migration and development, children/young people and work, gender, rural livelihoods, and development interventions

Ernestina Fredua Antoh is an Associate Professor and a Senior Research Fellow with the Bureau of Integrated Rural Development, Kwame Nkrumah University of Science and Technology. She is a sociologist with research interest on microfinance, women empowerment, gender, and rural livelihoods.

Emmanuel Kumi is a Research Fellow at the Centre for Social Policy Studies, University of Ghana. His work focuses on development finance, political economy, NGOs, sustainability, African philanthropy, civil society advocacy, and civic space.

ORCID

Thomas Yeboah http://orcid.org/0000-0002-3284-8976
Emmanuel Kumi http://orcid.org/0000-0001-8318-8499

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