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# Institutions, Corruption and Microfinance Viability in Developing Countries: the Case of Ghana and Nigeria

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## Abstract

*This article focuses on the role corrupt institutions (microfinance institutions) play in microfinance not being accessible for business development in Africa. It specifically sheds light on the contexts of Nigeria and Ghana to tease out the challenges and opportunities for small businesses consequent upon a culture of corruption in these countries and associated challenges for small business owners and entrepreneurs as well as microbusiness development. As well-known, in many developing countries with a high level of corruption, there is potentially a high incidence of institutional void, which presents setback and challenges for businesses to thrive. Microbusiness development relies largely on effective institutions to develop, and in situations where institutions are corrupt, these challenges are rather redoubled thus posing a threat to entrepreneurship development. Therefore, these contexts enable us to understand and interrogate the challenges facing microbusiness development, where corrupt microfinance institutions exist, as well as business opportunities if these corrupt institutions were not present. Thus this paper argues that for businesses to thrive enabling and effective institutional mechanisms are crucial, which will facilitate opportunities for microbusiness development.*

**Keywords:** *microfinance institutions; institutional corruption; Ghana; Nigeria; microbusiness development.*

**JEL Classification**: *L26; P19; J48.*

## Introduction

The focus of this article is to examine the role corrupt institutions play in microfinance viability (and development) in Africa. It specifically sheds light on corrupt social contexts like Nigeria and Ghana to tease out the challenges and opportunities for small businesses consequent upon a culture of corruption in these countries and associated viability of microfinance for businesses and/or microbusiness development (World Bank, 2009). Combatting corruption is an important economic, commercial and social issue in most human societies (Muhammed & Reddy, 2019; Boyes-Watson, 2013; Padhay, 1986). Scholars (see Muhammed & Reddy, 2019; Mersland & Strom, 2009) have highlighted how an effective anti-corruption practice can potentially decrease corruption in society and organisation.

Microfinance institutions are corporate bodies that are established in order to finance small-scale businesses (micro-enterprises) and local economic activities which were *ab initio* excluded from mainstream banking practice and formal finance (Muhammed & Reddy, 2019). Nevertheless, in Sub-Saharan Africa, microfinance is at incipient stage, and most low income earners, including many of the poor, find it challenging to access financial services (Spencer & Wood, 2005) exacerbating poverty and poor business development (World Bank, 2009). Huge disparities exist between African countries and other countries in relation to access to microfinance and its viability in supporting business development given the incidence of corrupt institutions (Spencer & Wood, 2005; Hartarska, 2005). Questionable working practices, poor corporate governance, poor internal control mechanisms, inept political leadership and unethical weak institutions all contribute to underperformance of microfinance development in Africa (Mersland & Strom, 2009). For example, in Nigeria, governance culture, fraud and transparency have been identified as impediments (Adegbite, 2012; Okike, 2007); and in Ghana Osei-Assibey (2011) has observed comparable state of affairs. Evidence elsewhere suggests that corrupt practices and weak institutions can be detrimental to microfinance viability and business development (Chiumya, 2006; Lafourcade, Isern, Mwangi, & Brown, 2005; Basu, Blavy & Yulek, 2004; Copestake, 2002; Vaughan, 1996).

Nevertheless, researches focusing on societies, which are relatively successful in curbing corruption in order to bring about successful microfinance development, are relatively rare in the developing countries (Osei-Assibey, 2011). Additionally, examining failure and/or underperformance of microfinance institutions is significant because of the important resources they leverage regarding poverty alleviation and national development (Lopatta, Tchikov, Jaeschke & Lodhia, 2017). Therefore, this paper aims to focus on Ghana and Nigeria, two countries under the jackboot of corruption and institutional malfeasance, which constitute setback to entrepreneurial growth, small business development and access to microfinance (Osei-Assibey, 2011). To actualise the intention of this paper, prior, relevant literature was reviewed to interrogate how corrupt practices in various institutions that facilitate access to microfinance in the two countries explored here. This process helped in shedding light on the dynamics of corruption and its consequent impact on microfinance viability, institutions and business development. Guided by this excuse, this paper identified some issues if dealt with would translate into more effective microfinance and business development despite the challenges posed by corrupt microfinance institutions in these countries.

This paper found that although corruption cannot be completely eradicated; however, it can be minimised which will translate into microfinance viability. Also, the paper noted that although corruption exists, through institutional voids, but better corporate governance, checks and balances and implementation of anti-corruption measures as well as ethical leadership will be instrumental in creating institutional environment that supports microfinance viability and small business venturing. This paper also revealed a number of best practices in Nigeria and Ghana to ameliorate the incidence of corrupt behaviours, which include, but are not limited to, strong monitoring, review of decision-making processes, anti-corruption culture, transparent practice, and ethical behaviours. Consequently, this article widens knowledge on the notion that although corrupt practices and institutions are widespread in developing countries (Africa), taking the above measures could contribute to better society and more viable business venturing. The article is divided into sections: the next section focuses on the contexts being examined; second section is the overview of relevant, prior literature; and third section examines suggestion for the way forward.

## Study Context: Ghana and Nigeria – Good Bedfellows?

Nigeria is Africa's largest economy yet more than 70% of the country's population lives below the poverty line (Frynas, 2005). Weak economy, crushing poverty, corruption, ineffective institutions and inept political governance have aggravated its woes (Adegbite & Nakajima, 2012). This situation has made some of its citizens to lose confidence in the country's political leadership and legitimacy concerning the provision of their basic necessities. They now resort to entrepreneurship as a means to eke out a living. Sadly, microfinance in Nigeria is hardly accessed by those that need it (Olarenwaju & Olabisi, 2012). Although regulatory measures have been institutionalised including Nigeria Stock Exchange (NSE), Securities and Exchange Commission (SEC), Companies and Allied Matters Act (CAMA, 2004), corruption and fraud are rife (Adegbite, 2012).

The history of microfinance in Nigeria started with the evolution of "esusu" ("osusu" or "isusu") – a rotating credit and savings association and a financial self-help group scheme. These informal credit granting and self-help schemes revolutionised into rotating and (or non-rotating) savings and credit schemes to register cooperatives and eventually banks (Okorie & Miller, 1976). Subsequently, these self-help groups together with capacity-building and liquidity exchange system were upgraded and spread to several other parts of Nigeria, including Farmers Development Union (FADU). In a bid to modernise these informal credit and savings associations in the 1970s and 1980s, 137 cooperatives and 176 informal groups were created, and by 1994 a good number of community banks were operational facilitating granting of loans and credit to farmers and small businesses in the communities. However, performance of these credit schemes/banks and effectiveness of the regulatory and monitoring institutions is in question given institutional voids enabling weak enforcement (Bakre, 2007). As a result, Agbiboa, (2013) noted that corruption in Nigeria is *semper et ubique*. In a corrupt country such as Nigeria, driving accountability and transparency as well as accessing microfinance has proved very challenging (Emeseh & Songi, 2014; Olarenwaju & Olabisi, 2012). Exacerbating this context is Nigeria's "patronage-based Nigerian society" (Bakre, 2007), which fuels corporate malfeasance, where consideration is given to "connected" people in society whilst disadvantaging others in accessing loans and credit (Olarenwaju & Olabisi, 2012; Adegbite & Nakajima, 2012).

Similarly, in Ghana Osei-Assibey (2011) and Boateng (2015) noted that microfinance institutions were founded following the perceived deficiencies in the prevailing financing schemes for small businesses and the poor. Thus, by 2011 new companies were licenced to begin operations, and existing institutions and Non-deposit taking Financial Non-Governmental Organisations (FNGOs) that met the conditions stipulated by the government (Bank of Ghana) for licencing were permitted to transform into microfinance institutions (Boateng, 2015). Nevertheless, Andah (2008) observed that despite government's committed intention to sustain emerging small business in Ghana by transforming credit schemes to allow rise of microfinance, there exist governance and monitoring issues stemming largely from corruption and institutional voids. It is on this score that Asiama & Osei (2007) eloquently asserted that "despite decades of public provision and direction of provision of microcredit, policy orientation, and the entry of new players, the supply of microcredit is still inadequate" in Ghana. Some of the impediments to the development of small business and microfinance viability included undercapitalisation, regulatory and supervisory loopholes and inefficient management amongst others. Comparable issues were also highlighted by several authors (Boateng, 2015; Osei-Assibey, 2011), which include diversion of funds, frequent changes and inadequate finance in government policies, huge loan losses, and heavy transaction costs posing obstacles to the growth of business entrepreneurship.

## Understanding Institutions

Institutions are considered as a network of cultural and societal apparatuses guiding organisational and people's behaviour and actions including behaviour about access to microfinance, which can aid business development (Bakker, Schaveling, & Nijhof, 2014; Scott, 1995; North, 1990). As noted by Scott (1995) institutions include formal and informal mechanisms and/or frameworks permitting efficient interactions between social actors such as banks, creditors and small business entrepreneurs in this context (Bakker et al., 2014). Institutions are therefore various mechanisms, instruments, values, myths, practices, relationships and belief systems that facilitate in maintaining relatively stable forms of organisational and societal practices including (Kostova & Roth, 2002). It is on this basis that Kostova & Roth (2002) observed that they consist of societal "higher order" issues beyond a specific organisation, constituting or restraining the interests and political participation of social actors without requiring recurring authoritative interference to achieve definite regularities (DiMaggio & Powell, 1983) for example resource distribution, benchmarks to access to business finance and policymaking. Accordingly, Giddens (1984) noted that institutions include the government, business institutions, legal system, and business system that govern human actions.

Institutions enable the creation of standards, codes of conduct, policies, and strategies that guide behaviours including bribery, fraud and illegitimate actions, which could threaten small business owners' access to microfinance (Lopatta et al., 2017; Lafourcade et al., 2005). Moreover, these institutions are closely connected with each other, creating, enabling and transmitting illegitimacy, corrupt practices and unethical behaviour and actions, for example, bribery and not giving loans to people that truly deserve it, which could be detrimental to economic development. Consistent with the above contention, general approach to institutional working, understanding and governance – institutionalism – can be conceived from two main aspects: formal and informal institutions (North, 1990). The former is about well-established policies, laws and codes that guide corporate and human actions; while the latter focuses on various social habits, values, myths and belief system that also shape human/organisational actions. Understanding institutional arrangement also sheds light on legitimacy as well as emphasises why organisational behaviours in a specific society are similar or "isomorphic" (DiMaggio & Powell, 1983). Thus, why microfinance organisations operate the way they do in these countries is as a result of what is acceptable or unacceptable for their continual existence in corrupt regimes (Suchman, 1995). Correspondingly, DiMaggio & Powell (1983) divided institutional factors in three domains: mimetic, coercive, and normative. Scott (1995) added to this literature by highlighting three aspects including normative, regulative and cultural-cognitive. However, a lack of enabling, effective institutions exacerbates institutional void, which is not absence of institutions but unworkable, corrupt institutions that are prevalent in Africa (Amaeshi, Adegbite, & Rajwani, 2016).

## Corruption and Institutional Voids

In their seminal work, *Winning in Emerging Markets*, Palepu & Khanna (2010) coined the term institutional voids describing the absence of intermediaries including credit card systems, market research firms and appropriate market enabling efficiently connect buyers and sellers in international markets. They further argue that these gaps or voids are existent in specific markets serving as obstacles to the ideal relationship and transactions between buyers and sellers as well as businesses and financial institutions (Amaeshi et al., 2016). These voids could be corrupt practices such as bribery, fraud and the like (Azim et al., 2017). In their empirical study, Azim et al. (2017) found that if microfinance institutions are corrupt and "not seen to be tackling corruption, their legitimacy could be threatened … resulting in … business becoming

more difficult to operate" in the Bangladeshi context. This notion is being echoed by Osei-Assiby (2011) in the Ghanaian context as well as the rest of Africa (Lafourcade et al., 2005).

In emerging economies like Nigeria and Ghana, often some of the intermediaries that businesses require including viable banks to access loans and credit, regulation of intellectual property rights, reliable sources of information, and transaction modes, are in scarce supply triggering business underdevelopment (Spencer & Wood, 2005). Other factors including government policies, business laws, and social environment of the country are implicated in small businesses (not) accessing finance for business viability. Thus, market-driven economies as being contextualised in this paper require proper institutional infrastructures to support business to thrive and access microfinance. Regrettably, institutional voids and corruption is a roadblock to entrepreneurial opportunity in emerging economies. Both Mair & Marti (2009) and Khanna & Palepu, (1997) stressed that a lack of effective regulatory framework can be attributed to institutional voids, where institutional structures that support market, accountability, legitimacy and business responsibility are weak and/or incapacitated to perform the functions expected of them (Mair & Marti, 2009). As observed by Khanna & Palepu (1997) institutional void does not signify absence of institutions; it rather emphasises their incapacity to functional appropriately and effectively (Khanna & Palepu, 1997). For example, in instances where a microfinance institution lacks the capacity to police and regulate businesses' activities and grant loans/credit to individuals that really need them through misappropriation of funding and granting of loan as a result of corruption and related phenomena (Mair & Marti, 2009).

## Corruption, Microfinance Institutions and Business Development

Corruption in African countries is described as an administrative culture involving adulation, bribery, patronage, graft, misfeasance, and peculation (Amaeshi et al., 2016; Padhay, 1986). *Transparency International,* which is a non-governmental organisation that monitors and publishes political and corporate corruption in international development, through *Corruption Perceptions Index*, has constantly rated Nigeria Ghana as very corrupt countries on the corruption spectrum – particularly Nigeria. Nigeria's unique corrupt regime as well as its inept institutional governance mechanisms and regulatory system provide weak control mechanisms to control corporate activities including activities of microfinance institutions (banks) (Olarenwaju & Olabisi, 2012).

In a study by Olarenwaju & Olabisi (2012) they found that women's access to entrepreneurial resources in the informal Nigerian economy presents serious challenges to small business and entrepreneurial development. Similarly, as reported by Boateng (2015) the main constraints faced by microfinance institutions in Ghana "include poor regulatory environment, regular vicissitudes in government policies, paucity of capital … corruption, frauds and forgeries and poor corporate governance" (p. 52). This contention implies that the damaging cost of corruption entails that public confidence in government is undermined triggering widespread erroneous economic choices and the government's ability to implement policies is constrained by corrupt practices, which could undermine the development of small businesses and legitimate granting of credit to entrepreneurs (Olarenwaju & Olabisi, 2012).

Microfinance institutions are essentially established community-based organisations offering financial services to small scale businesses, low-income populations and local economic activities which were generally excluded from mainstream banking practice and formal finance (Muhammed & Reddy, 2019). The importance of microfinance institutions cannot be undermined as they serve a vital link between financial inclusion, national development and economic development of poor countries (Shabana, Buchholtz, & Carroll, 2016; Osei-Assibey, 2011). No doubt, the countries investigated here – Nigeria and Ghana – have enormous potential; nonetheless, there are definite impediments to overcome, sadly, a crucial impediment is corruption (Agbiboa, 2012). The World Bank (2009) stressed that "corruption thrives where

there is discretion and monopoly, accountability is weak, and public servants are poorly paid". This contention is at the root of entrepreneurial underdevelopment and underperformance in these contexts as well as incidence of institutional voids (Mair & Marti, 2009; Bakre, 2007).

Institutionally writers (see Suchman, 1995; North, 1990) have observed that understanding the roles played by institutions in organisational and national practice and culture, can be instrumental in closing accountability, transparency and legitimacy "gap", a metonym for institutional voids (Mair & Marti, 2009). This is the preoccupation of this paper; and surprisingly, the volume of research in this direction is quite sparse on the African continent (Amaeshi et al., 2016). This is the mainstay of our paper: focusing on understanding and interrogating the incidence of corruption in Ghana and Nigeria and how this ineluctably impacts negatively on microfinance and business development. Some of the institutional reasons for the above landscape are presented in the following sections.

## Weak policies and legal institutions

One of the main reasons for the pattern of microfinance practice in the countries explored is the nature of their legal and policy institutions (Okike, 2007), which is responsible for regulating corporate and banking behaviour for effective corporate governance. There are a plethora of legal and policy instruments, which provide basis for organisational practice, responsibility, transparency and accountability as seen above. For example, in Nigeria legal as well as business regulation institutions such as Corporate Affairs Commission created by Companies and Allied Matters Acts (CAMA) in 1990 and Securities and Exchange Commission (SEC) exist to fight corrupt practices associated with granting and accessing loans by small businesses. Likewise, in Ghana, bodies such as Financial Non-Governmental Organisations and Ghana Microfinance Institutions Network (GHAMFIN) exist. However, this is no antidote to sharp and corrupt practices in the sector. In Okike's (2007) view, there exist sufficient laws and policies regulating corporate activities including microfinance (Lafourcade et al., 2005); nevertheless, what is lacking is effective implementation and enforcement of these policies/laws making microfinance and business development a herculean task on the African continent (Olarenwaju & Olabisi, 2012).

## Apparent lack of checks and balances

Constant checks and balances is integral to effective implementation of microfinance viability on the continent (World Bank, 2009; Chiumya, 2006). This process serves as a way of promoting accountability and transparency and also gaining public trust (Lopatta et al., 2017; Osei-Assibey, 2011). As argued by Lafourcade et al. (2005) lack of check and balances negatively impacts business and institutional accountability, enforceability of laws and ethical behaviours. Evidence has revealed that when businesses and (financial) institutions are left unchecked they can become corrupt, irresponsible and illegitimate in their operationalisation. For example, the World Bank has recommended improved government oversight as well as checks and balances to efficiently control organisational operations. Promoting appropriate behaviour as well as result-oriented regulation through check and balances has become the norm in Western countries; nonetheless, African (developing) countries lag behind in ensuring checks and balances translating into ineffective implementation of policies and laws guiding microfinance and their institutions (Muhammed & Reddy, 2019; Chiumya, 2006; Hartaska, 2005).

## Inept political leadership

Leadership is essential in shaping national and organisational behaviour as well as socio-cultural practices (Rotberg, 2012; Burns, 1978). Leadership, which is the capability of a leader to mobilise, galvanise and influence behaviour of people in a particular setting can bring change

and/or radicalise ways of doing things (Kotter, 1990). Leadership is thus fundamental to ethical practice, organisational behaviour and national culture as it shapes what is appropriate or inappropriate (Rotberg, 2012) including unethical, corrupt microfinance culture (Nwagbara, 2012; Chiumya, 2006). Correspondingly, Rotberg (2012) has explicitly remarked that leaders and their leadership style exert enormous influence on corporate behaviour as well as the overall working of the state and institutions that regulate human/organisational actions (Scott, 1995). Therefore, it can be argued that enabling political leadership is a sine qua non for responsible lending and microfinance culture in the context of Ghana and Nigeria, which have weak institutions (Okike, 2007).

Accordingly, Amaeshi et al. (2016) observed that business managers, leaders and those saddled with provision and monitoring of microfinance availability/access follow in the footsteps of political leaders in a country, which shapes collective practice (Rotberg, 2012; Kotter, 1990). The inseparable association between political leadership and organisational culture including microfinance culture cannot be over-emphasised (Chiumya, 2006). Thus, in weak, ineffective institutional context, business leaders and managers are ineluctably drawn by the powers and style of political leadership prevalent in a context in their dealing including exhibiting best practice in microfinance for business development. Inept political leadership style technically moderates corporate governance and practice eliciting poor governance and unacceptable microfinance regimes (Rotberg, 2012). Thus, effective and ethical political leadership is reflected in positive institutional and corporate governance of organisations, guiding the strategies and vision of such establishments on the path of accountability, probity and ethics.

## Weak social movement/activism

As well-known social movements, for example, NGOs and non-partisan formations can stimulate change as well as ignite corporate conscience and business ethics (Georgallis, 2017). One main reason behind ethical business practice including microfinance practice is the virility of social movements as they prod institutions and governments to rethink their place in society for effective working of institutions. As asserted by Kolk & Lenfant (2015) the activities of social movements have been described as "counter-hegemonic" as well as emancipatory initiatives to drive responsible business practice. They have been described as forces from below forcing institutions and government to rethink the interest of wider stakeholders for accountability, business responsibility and social justice. For instance, in the Arab context, protest in the wake of Arab Spring as well as collaborative work and international campaigns by social movements precipitated change in governance promoting the voice of the marginalised for inclusive society. Nonetheless, in regimes that decry social movement/activism, as seen in Nigeria and Ghana, inclusion, justice and fair play in microfinance can be problematic (Chiumya, 2006). However, in situations in which social movements are weakened, there is a tendency for corporate bodies to be unethical in their dealings (Kolk & Lenfant, 2015).

## Neo-patrimonial state and social connections

Patrimonialism can be defined as political and social order where patrons secure the support and loyalty of clients by granting benefits from the state resources (or their own resources). On the other hand, neo-patrimonialism, helps in creating a 'hybrid' state, which Eke (1975) refers to as "two republics". The dichotomy between the public and private spheres exists, at least formally, but in practice real decision-making occurs outside the confines of formal institutions (Smith, 2007). Conversely, decisions about resource allocation and policies are made by powerful interest groups or politicians and their cronies who are connected by clientelist, personal and informal networks co-existing with the formal state structure (Joseph, 1987). As a consequence, neo-patrimonial societies fail to guarantee fair and ethical distribution of public resources such as microfinance to small businesses. This cultural practice and system is the foundation of most African countries' political economy and society (Smith, 2007).

The literature on political economy of most African nations including Ghana and Nigeria (Agbiboa, 2012; Joseph, 1987) indicates the key features of a neo-patrimonial state include: presidentialism, the organised concentration of power on a group or single person; a culture of “rent-seeking” associated with private appropriation of resources by a specific group; use of a nation’s resources for political legitimation; and clientelism (patronage-based society), where power is sustained via the awarding of personal favours, including contracts, unsecured loans, and illicit granting of microfinance licenses, among others (Bakre, 2007; Basu et al., 2004). The last characteristic is essentially prevalent in Ghana and Nigeria (Chazan, 1989). This manifests in disparate circumstances. For instance, rather than navigating through the country’s bureaucratic set-up and expecting the state to provide services, citizens/businesses including small business owners that have social connections are more likely to look for support from personal networks and connection in patron-client settings (Joseph, 1987). This system is an impediment to availability and accessibility of microfinance by less “socially connected” and privileged business owners (Chiumya, 2006; Copestake, 2002).

## Conclusion

This article has examined the association between institutions, corruption and microfinance viability in developing countries with focus on Ghana and Nigeria, sites that encourage corrupt practices in organisations charged with policing and implementing policies, laws and regulations about microfinance to small business owners for economic development. Through the analysis undertaken here – mediated by explication of prior, relevant literature on these phenomena – it can be gleaned that in settings in which corruption thrives, it is almost impossible for microfinance institutions and regulatory regimes to be ethical, responsible and corrupt-free. Consequently, such corrupt regimes constitute roadblocks to effective implementation of microfinance for loan availability to poor and small entrepreneurs for business development – and national development in the final analysis as well as poverty alleviation. A couple of issues have been identified in the literature including neo-patrimonial state and social connections, weak social movement/activism, inept political leadership, apparent lack of checks and balances and weak policies and legal institutions as triggers or facilitators of corrupt regimes that negatively impact microfinance regulation, monitoring and implementation. Therefore, for a more sustainable, effective and result-oriented microfinance regime, it is imperative that governments in developing countries – specifically Nigeria and Ghana – redouble their efforts to bring about better microfinance provision for business development and national prosperity.

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