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CRIMINALITY IN THE MICROFINANCE SECTOR: A SYMPTOM OF "BROKEN WINDOW"

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ABSTRACT

The phenomenal rate of deviant acts in the microfinance sector of Ghana's economy has generated a great deal of debate about its ramifications for the future of the sector and financial inclusion efforts. The Sustainable Development Goals (SDGs) target 16:4 acknowledges the dangers syndicated crimes pose to the attainment of the goals and proposes a reduction in all forms of illicit financial flows and organized crime by 2030. In this paper, it is argued that one of the major effects of criminality in the microfinance sector is the deepening of financial exclusion of people who are already on the fringes of the financial inclusion bracket. Semi-structured and in-depth interview guides were used to collect data for the study. The Broken Window theory of criminology was adopted as the theoretical framework to guide the study. The study found that criminal and fraudulent activities in the microfinance sector are real issues that need attention. The study concludes that the laxity and delays on the part of state institutions mandated to regulate the sector and their inability to crack the whip on criminal elements in the sector have contributed to the festering of crimes in the sector and its resultant financial exclusion. The study recommends that regulatory agencies should develop and deploy stringent monitoring and surveillance regime in order to forestall the occurrence of criminal activities which have plagued the sector.

Keywords: Criminality, Double-up, Financial Inclusion, Fraud, Microfinance

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INTRODUCTION

The 2017 Global Findex indicated that about 1. 7 billion adults remain unbanked globally.[2] The situation is attributed to factors such as the lack of financial institutions, high cost of documentation, distance and distrust of the institutions among others. The concept of financial inclusion has become a major socio-developmental concern that governments especially those in Africa are grappling with. It has been observed that banking institutions in Africa are less inclusive.[3] In addition, where financial services exist in Africa, they are mostly concentrated in urban areas.[4] Thus the majority of the rural poor are excluded from financial services.[5] Financial inclusion has been defined to include one's ability to own an account in a formal financial institution, the ability of segments of society to access formal financial services, or the process that deny the poor and vulnerable from accessing formal financial institutions of their countries.[6] Being financially included comes with some economic benefits including ability to save and also borrow from financial institutions. Accordingly, financial inclusion can help the disadvantaged and economically marginalized to secure employment and improve on their incomes.[7] It has also been observed that financial inclusion can enhance women's empowerment.[8] Some advocates have opined that, financial inclusion is a sure way of improving financial stability of economies around the world.[9]

The purported benefits of financial inclusion have energized governments of African countries to promote and also institute measures to open up their economies in order to engender financial inclusion. In spite of these, many people in Africa are still excluded from key financial sectors mainly because their income levels are low and barely suffice to cater for their basic needs for them to consider saving a portion. Poverty in Africa is a major social problem that needs crucial attention in order to address it. This is because a sizeable number of people in Africa are financially marginalized either because they do not have money at all or they lack access to financial institutions. It is as a result of these challenges that all countries in the developing world and other stakeholders are working feverishly to ensure that more people have access to financial inclusion gateways such as thrift, credit unions, and microfinance and banking institutions in order to close the financial exclusion gap. These efforts are also geared towards achieving the 17 Sustainable Development Goals (SDGs) of peace and prosperity.

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[2] A Demirguc-Kunt; L Klapper; D Singer; S Ansar; J Hess, *The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution* (Washington, DC: World Bank, 2018).
[3] See R Cull et al., 'A New Index of the Business Environment for Microfinance' (2015) 70 World Development, Elsevier 357-388.
[4] Mlachila, et al. *Banking in Sub-Saharan Africa: Challenges and Opportunties* (Pretoria: EIB, 2013).
[5] E. Littlefield and R. Rosenberg, *Breaking Down the Walls between Microfinance and Formal Financial System, Consultative Group to Assist the Poor* (Washington DC. World Bank Group, 2004).
[6] See Carbo et al., *Financial Exclusion* (UK: Palgrave Macmillan, 2005) 98-111; J Conroy, 'APEC and Financial Exclusion: Missed Opportunities for Collective Action?' (2005) 12 Asia-Pacific Development Journal 53; and Mohan, (2006) R Mohan "Economic growth, Financial Deepening and Financial Inclusion", Address at the Annual Bankers' Conference 2006, Hyderabad.
[7] See M Bruhn and I Love, 'The Real Impact of Improved Access to Finance: Evidence from Mexico' (2014) 3 The Journal of Finance 69.
[8] V Swamy, 'Financial inclusion, gender dimension, and economic impact on poor households' (2014) 56 World Dev 1-15.
[9] R. Han and M. Melecky *Financial Inclusion for Financial Stability. Access to Bank Deposits and the Growth of Deposits in the Global Financial Crisis (Policy Research Working Paper No. 6577)* (Washington, DC: The World Bank, 2013).

One cannot deny that Ghana stands to derive a number of benefits from having many of its citizens within the financial inclusion bracket. This includes helping families save for emergencies, help grow businesses and may also bring transparency to the informal sector[10]. According to some analysts, microfinance creates access to productive capital for the poor and enhance their sense of self-worth thus energising them to participate in the economy and society.[11]

HISTORY OF MICROFINANCE IN GHANA

Oral history of most local people in Ghana indicates that since time immemorial, they have had their own methods of mobilizing funds for local business and small retail business, farming and others. These methods include the "Susu"[12] or thrift schemes. Some documentary evidence indicates that the first credit union in Africa was established in Northern Ghana in 1955 by some Canadian Catholic missionaries. However, the Susu scheme is believed to have originated in Nigeria and spread to Ghana from the early 1900s.[13]

The operations of the Susu schemes were quite informal and expensive. Most of them operated without proper bookkeeping and were also not properly regulated by government agencies such as the Bank of Ghana, neither were their operations monitored. Worse of all, the safety of funds lodged or saved with these informal thrift schemes could not be guaranteed. Some of the collectors and operators of the thrift schemes often defrauded their customers or absconded with the funds they have collected from the customers. Others also have had difficulties accounting for the monies they have collected from customers especially when the customers needed the funds. It is in the face of this precarious situation which characterized the informal savings and thrift schemes that some observers thought that the formalization of the sector will help curb these problems.

Over the years, the Susu and other informal local savings schemes evolved into its current state. Thanks to various financial sector policies such as the liberalization of the financial sector and the promulgation of PNDC Law 328 of 1991, which opened the sector up for the establishment of different types of non-bank financial institutions, including savings and loans companies, finance houses, and credit unions.

Microfinance has been conceptualized as the provision of financial services to low-income and the poor, and other related financial services such as insurance and payment services.[14] Given the important services it renders to the poor, the emergence of the formal microfinance and thrift institutions was hailed as a blessing to especially those in the informal sector of Ghana's economy who were mostly the victims of the Susu operators' criminal schemes. The assumption was that, given the relatively formalized nature of the microfinance institutions and strict regulation of their

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10 Centre for Financial Inclusion <https://www.centerforfinancialinclusion.org/> accessed on 10 February, 2022. Also see the work of Yin and Kofie (2022). These scholars explain the concept of informal economy which is useful in the context of this work.

11 M Otero, 'Bringing Development Back, Into Microfinance' (1999) 1 Journal of Microfinance / ESR Review 1.

12 'Susu' refers to small savings collected daily from clients by individual collectors going door to door.

13 JP Asiamah and P Osei, 'Microfinance in Ghana: An overview' <http://www.economicswebinstitute.org/essays/microfinanceghana.htm> accessed 10 February, 2022.

14 See Otero (n 10); S.A. Brefo, Sustainability of microfinance institutions in Ghana; a case study of Opportunity International Savings and Loans Limited (MBA Thesis, Kwame Nkrumah University of Science and Technology, School of Business, 2009); J. Ledgerwood *Microinance Handbook. Sustainable Banking with the Poor. An Institutional and Financial Perspective* (Washington DC: The World Bank, 1999).

activities by the Central Bank of Ghana and its agencies, customers' deposits and funds will be secured and will not be mismanaged as was the case with the informal system. In addition, the emergence of the microfinance institutions was seen as a sure way of improving financial inclusion of the poor and low income groups.

MICROFINANCE AND POVERTY REDUCTION

For a very long time, the relevance of the operation of microfinance companies has been considered from mostly socio-economic point of view as a means of poverty reduction, and provision of financial resources.[15] The literature on microfinance is replete with materials on this development. Poverty alleviation among rural and urban poor has been one triumph cards of microfinance institutions in Ghana. The provision of financial backing or capital to the poor is a major effort aimed at helping to improve the economic fortunes of the poor. Otero did note that microfinance creates access to productive capital for the poor.[16] And in addition, when it is combined with the right human capital, it enables people to move out of poverty. The presence of microfinance in rural communities makes it easy for the poor to access credit at ease than from the traditional financial institutions. One can also not ignore other equally relevant services such as training which empowers the poor to venture into other economic activities.[17] In all, microfinance stimulates entrepreneurship, empower women socially and economically and as consequence, ensures that financial inclusion goals of SDG is attained.

THE PROBLEM

This hope of experiencing improved and secure service seems to have been dashed because of the extent of criminality in the sector and the pain customers have had to endure as a result. Some fraudulent and syndicated groups have taken advantage of the liberalization of the sector by courtesy of PNDC Law 328 of 1991 to set up financial entities to dupe unsuspecting customers especially those operating in the informal sectors of the economy. Ghana is not destitute of financial institutions. For example, the Bank of Ghana recorded that at the end of 2018, that there were 484 licensed microfinance institutions with more than 64.4% percent being in Accra, the capital city of Ghana.[18] There were about 70 licensed microcredit companies with over 74 % located once again in Accra, the capital city alone. The least of these institutions were mostly fund in the three Northern regions of the country which coincidentally lead the poverty league of the country. In spite of the abundance of these financial institutions in the country, figures also show that quite a number have been collapsing of late due to insolvency, fraud, inability to recapitalise and mismanagement.[19]

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[15] See A.A. Khamidov, 'Peculiarities and Factors of Microfinance' (2015) 9 Journal of Politics and Society 1128.
[16] Otero (n 10).
[17] See OA Ihugba, B Bankong, and NC Ebomuche, 'The Impact of Nigeria Microfinance Banks on Poverty Reduction: Imo State Experience' (2014) 16 International Letters of Social and Humanistic Sciences 92; NK Bishnoi, 'Comparative analysis of corporate governance practices between IT and Real estate sector of India' (2015) 3 International Journal of Advance Research in Computer Science and Management Studies 1; SD Muhammad, 'Microfinance challenges and opportunities in Pakistan' (2010) 14 European Journal of Social Sciences 94-97.
[18] Bank of Ghana, Banking Sector Report. <https://www.bog.gov.gh/w p-content /uploads/2019/08/Banking_Sector_R eport_May_2018-1.pdf>accessed on 10 February, 2022.
[19] See Agyenim-Boateng et al., 'Credit rating, banks' capital structure and speed of adjustment: a cross-country analysis' (2020) 69 Journal of International Financial Markets, Institutions and Money 1; Bank of Ghana, Banking Sector Report.

The Bank of Ghana is reported to have revoked the licences of over 347 microfinance companies and some 23 savings and loans entities in 2019 due to insolvency, mismanagement and fraud.[20] Others collapsed or folded up due to inability to sustain their operations. Others were said to have duped their customers and folded up or bolted with the funds they collected from the customers.[21] These negative reports in the sector give much cause for concern given the checkered history of the financial sector of the country. The financial sector in Ghana which has seen so much erratic regulations especially under the military regimes in the 1980s should not be glossed over. The frequent changes in currency and sometimes the unorthodox confiscation of some currency denominations did not help either. For example, the 1982 demonetisation of the 50-Cedis note did create further mistrust for the banking sector,[22] until recently when Ghana was ushered once again into democratic constitutional governance in 1992. In the 1990s, the economic policy of the country changed towards liberalisations. The governmental control which was experienced in the 1980s and especially during the military regimes also ceased. It has been argued that in the 2000s, Ghana experienced "financial deepening" which refers to the extent to which the use of money and financial services are embedded in domestic economy and contribute to development".[23]

It was envisaged by many that the springing up of microfinance institutions will help the country attain its financial inclusion goals and to improve access to the financial resources for the poor and the marginalized who often lack financial muscle to support their businesses. It is in view of these developments that this paper asserts that the criminal activities in the financial sector can further dim the interest of the citizens in savings and having anything to do with these institutions. This comes at the backdrop of the fact that most rural people are already skeptical about saving money with these institutions. Therefore, the fraudulent activities by some of the operators who are taking advantage of the renewed interests in savings could dent interest in savings and further deepen financial exclusion. The study explored some of the stratagems the charlatan microfinance institutions use to attract customers, why people continue to fall prey to these scams, the treatment that is meted out to those who defraud their customers, and finally, the effects of criminality on financial inclusion and what can be done to sanitize the sector. This area of microfinance studies has not attracted much attention although, much has been done in the area of fraud within microfinance firms-management and insider fraud.[24]

THEORETICAL FRAMEWORK

The Fraud Triangle

A search through the literature did not yield any definitive academic material on the setting up of microfinance institutions with the criminal intent of defrauding customs although some literature

<https://www.bog.gov.gh/w p-content/uploads/2019/08/Banking_Sector_Report_May_2018-1.pdf> accessed on 10 February, 2022.

[20] Bank of Ghana, *Banking Sector Report 2019* <https://www.bog.gov.gh/wp-content/uploads/2019/08/Banking_Sector_Report_July_2019-1.pdf> accessed on 10 February, 2022.

[21] See Bank of Ghana *State of the financial sector* <https://www.bog.gov.gh/wp-content/uploads/2019/07/State-of-the-Banking-System.pdf> accessed 10 February, 2022.

[22] T Killick, *Development Economics in Action: a study of economic policies in Ghana* (London, UK: Routledge, 2010).

[23] Ibid (n 18) 442.

[24] See Asmah,A. E. et al.

on fraud in the banking sector in general and insider fraud were unearthed[25]. In addition, most of the literature and works on financial/banking fraud relied on Cressey's fraud triangle model in their analysis.[26] In general the model asserts that, three elements are important in understanding fraud in the financial sector. These are pressure, opportunity and rationalization. The assumption is that individuals who have been entrusted with positions may be pressured or motivated by personal circumstances such the need for money to resolve a domestic problem or life-style problem such as gambling to commit fraud. Others may commit fraud because of "opportunity" that been availed to them such as having found some weakness in the monitoring systems or lack of effective control and regulatory systems in an organistaion. The last element according to Cressey, is rationalization. This is where the individual find reasons to justify the act of fraud.[27] For instance, an individual may rationalize fraud by that asserting that the company has been involved in fraudulent deals so he/she is also justified in defrauding the firm. The fraud triangle has some advantage when it comes explaining insider fraud and is also useful in preventing fraud, but it does not offer much when it comes explaining 'outsider' fraud and the situation where the firm has been set up solely to defraud customers. It is as a result of this deficiency that the study relied on the broken theory. The concept of opportunity is the only variable that sits well with the current study.

The Broken Window Theory

The broken window theory of crime was adopted for the study. The theory was developed by Wilson and Kelling in 1982.[28] The concept "broken window" is a metaphor for small social disorder in society which is sometimes ignored at the inception stage until it becomes a full-blown social problem. According to the progenitors of the theory, if such small disorders are not checked, it can generate into more serious social problems. In their influential article, they argued that signs of disorder such as a broken window in society may send a signal to some potential criminals that the people do not care what happens in their society or that they are not concerned thereby making crime more likely to happen. The key thrust of the theory is that crime becomes more pronounced when criminals detect that they will not be punished for the crimes they commit. In applying this theory to the study, the current assumption is that because most fraudsters who defrauded customers over years have not been handled according to law, it has emboldened other people to commit similar acts of criminality because they know that they will not be caught and even if they are arrested, they will not be punished. It cannot be denied that most offenders in the past have been left off the hook. This has made some of the aggrieved customers to think that when people engage in such crimes, they will go scot free.

The position of the paper is that crimes in the microfinance sector continue to persist because in the past offenders were left off the hook. This is a form of a "broken window" which is signaling to other criminals that society does not care and is not ready to deal with these little infractions thereby wrongly creating the impression that crime can be committed without consequences. This encourages others to do same and that until state agencies act proactively to remove smallest

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[25] Asamah, A. E., W. A, Atuilik, and D. Ofori. Antecedents and consequence of staff related fraud in the Ghanaian Banking industry (2019) (*Journal of Money Laundry Control*,

[26] See Homer, E. M. Testing the fraud triangle model (2019), in *Journal of Financial Crime*

[27] See Donald Cressey 1953

[28] GL Kelling and J.Q. Wilson, 'Broken windows: The police and neighbourhood safety' (1982) 249 The Atlantic Monthly 1.

acts of deviancy or criminality in the microfinance sector, such crimes will continue to plague the sector.

METHODOLOGY

The study was qualitative and exploratory in nature. It basically explored the modus operandi of some of the fraudulent microfinance institutions. The New Stone Microfinance (NSM) started its operation in the Akuapem North and South Districts of Ghana in the year 2012. The Company attracted over 300 customers from some towns including Aburi, Mampong, Kitase and Tutu. After taking deposits for about six months and promising to double and triple the deposits as loans in some cases, the company managers bolted with the funds of customers and all efforts to get the managers apprehended proved futile. While this is not unique is respect of criminality in Ghana's microfinance in particular and the financial sector in general, such act of criminality has serious ramifications for the financial inclusions and is grit for the criminological mill.

The study adopted a qualitative approach because of the nature of the subject (criminality) and the number of customers who were willing to participate in the study. After obtaining the list of some of customers, calls were placed to them for their consent to participate in the study. Most of them indicated that they were only willing to talk on condition that their locked-up funds will be paid to them after the interviews. Others did not see the need to participate because they felt it was unnecessary to reopen discussions on the matter. To some the participants, the sheer mentioning of the incidences cause them stress and pain. After identifying the first 2 customers, who willingly decided to participate, I asked them to recommend other customers which led to a couple others deciding to take part in the study. In all 17 participants were interviewed for the study, 13 females and 4 males. Thirteen of the participants were customers of the company, two were administrators and cashier and two community leaders. In-depth interviewing was conducted with an interview guide. The interview guide had both descriptive and structured questions.

However, the structured questions were very few. The descriptive questions allowed for fluid interactions and gave the participants more room to express themselves and also reduce tension and apprehension. Given the low educational background of some the participants, the interviews were more fitting and also allow the researcher to engage the participants and probe for clarity where there were inconsistencies in the information provided. The interviews were conducted mostly in the respondent's homes and work places so that they will be comfortable.[29] The interviews were both digitally and manually recorded with the participants consent. The data was analysed based on relevant themes in line with the study objectives. Table 1. Captures some details about the respondents' background. To avoid breached of confidentiality and to ensure anonymity, the names (not their real names) of the participants have been omitted including the local administrators and the community leaders. The community leaders were particularly concerned about potential future prosecution if their names were put in the study.

[29] See PB Kraska and WL *Nueman Criminal Justice and Criminology research methods* (Boston: Pearson/ Allyn & Bacon, 2008).

Table 1: Respondents Background Information

ID Number	Name	Sex	Age	Amount Deposited GHS	Sources information about the company
1	Max	Male	36	250	Church/Friends
2	Gina	Female	43	370	Friend
3	Obrapa	Female	38	120	Friend
4	Mansah	Female	38	150	Church
5	Shaka	Female	39	180	Friend
6	Bishop	Male	47	-	Someone
7	Sunkwa	Female	-	80	Church
8	Padei	Female	46	220	Someone
9	Adnega	Male	55	120	Someone
10	Beefos	Female	35	210	Someone
11	Dodi	Female	37	200	Someone
12	Marggie	Female	30	210	Someone
13	Manu	Female	34	80	Someone
14	KK	Male	33	330	Someone
15	Morda	Female	28	150	Church
16	Abi	Female	30	100	Someone
17	OPK	Female	40	170	Someone

Source: Field Report, 2020

Profile of the Participation

From Table 1, it is obvious that the dominant group who were victims of the microfinance company were women-mostly traders from the informal sector. This is often the case because of their poor educational status. The gender dimension of the victimization cannot be wished away without further interrogation. It has been noted that 85 percent of microfinance clients are women.[30] As has been succinctly noted, microcredit plays a critical role in empowering women. It helps deliver newfound respect, independence, and participation for women in their communities and in their households.[31] This might be one of the reasons why women are quick do business with some questionable microfinance companies or firms. Based on the data in the Table, it can be observed that the minimum contribution was 80 Ghana Cedis and the maximum being 370 Cedis. According to one of the participants, some of the customers had as much as 1,300 Cedis in their accounts as at the time the firm collapsed. Women are a major contributors to the economic wellbeing of their families and the communities in which they live. It has been observed that the reasons that make women resort to seeking help from microfinance are the same for men, and that is inaccessibility to capital from the banks and lack of collateral.[32].

[30] See S Daley-Harris *Microcredit Summit Campaign Report* (USA: Microcredit Campaign, 2007).

[31] See Juan Somavia, ILO Director-General <https://www.ilo.org/global/about-the-ilo/how-the-ilo-works/ilo-director-general/former-directors-general/WCMS_192716/lang--en/index.htm> accessed on 10 February, 2022.

[32] CE Lott, 'Why Women Matter: The Story of Microcredit' (2009) 27 Journal of Law and Commerce 219.

RESULTS AND DISCUSSION

The key objective set for the study was the exploration of the strategies employed by the microfinance company to defraud the customers and the effect such fraudulent acts have on social inclusion efforts.

Community Entry Strategy of Managers

The New Stone Microfinance was very strategic in its community entry. First and foremost, before the company set up its branch in Aburi, it contacted some important community leaders and informed them about the intention to setup the company. These individuals started canvassing for customers for the company long before the company started its operations. As a result, the company had very little work to do in terms of getting customers. Their "contacts" in the persons of the assemblyman, some opinion leaders and others went ahead of them to advertise their coming. In fact, they were those who prepared the way for the company and made things easy for them. Secondly, the company got the assistance of these individuals at no cost to advertise their company in at least three of the big orthodox churches in the towns. This was partly due to the fact the one of their "frontmen" was a respected reverend minister. It may sound as if these individuals had fore knowledge that the company was not credible because of the level of their involvement.

In fact as the administrator puts it:

> All the people who canvassed for costumers for the company were themselves victims of the criminal acts of the people [managers of the company] because they had no idea what the true intentions of the owners were.

I gathered through the interviews that some of the local canvassers also lost funds they disbursed on behalf of the company with the hope that it will be refunded. The manager further stressed that the canvassers were mostly driven by the job opportunities that would have come to the community. This was also confirmed by one of the key local leaders. When he was questioned about why he did not check the background of the company before supporting their operations. He opined that his involvement with the company has thought him a great lesson. He observed that:

> The mere fact that it [the company] was going to provide jobs to some community members and financial resource to especially those in petty trading businesses aroused my interest and blurred my judgment.

A number of the participants later hinted that they heard about the company from an announcements made on one Sunday mornings at three of the prominent orthodox churches in community. The cashier also said that her aunty who attends one of the churches was the person who came to inform her about the microfinance company which employed her later. From all indications, these people saw a 'broken window' that indicated to that they have their way or an "opportunity".[33]

Relevance of Local Involvement

The involvement of the prominent individuals in the community was a strategic act by the owners of the microfinance company says one of the participants. She observed that because of the position of these individuals in the community, their involvement gave the company credibility and made locals believed that they were in good hands. By that single act, the owners also succeeded in implicating the local leaders in the implicit criminal act. As a result, when the owners bolted with customers' deposits, some of the community leaders and locally employed staff of the firm were apprehended by the police. Some were even physically attacked and assaulted and harassed by the customers especially the assemblyman. Because some of the customer felt the local leaders were culpable, they demanded that they pay their deposit to them. While probing could not established the culpability of these local leaders in this fraud, I do share the view that most of them were just victims rather than perpetrators of the crime.

In addition, the company needed goodwill to enter the community and begin its operations which they did not have especially coming at the wake of so many companies bolting away with customers' money. They could not have earned the trust of the locals without the involvement of the assemblyman and the others. Almost all the participants opined that they subscribed to the company's operations because of the reputation of local people who publicized the inception of the company. These were very influential and highly respected individuals. A participant highlighted:

> I vowed not to have anything to do with these companies and Susu collectors because of the way they often bolt with customers' money. Yet, when I heard the announcement at church about company (sic) and the fact that it was Rev…[she mentions the reverend minister's name] was one of the people vouching for them, I felt they were credible…not knowing they are all the same. I was really disappointed in Rev…[Mentions the reverend's name again] because I never expected him to be part of such a scam. That's why I have not been talking him since then.

When the interviewer inquired from the assemblyman, he did not do due diligence with this company, he hinted that the owners took him to their heard office and branches in Madina and Ashiaman all in the greater Accra Region. He felt that was enough evidence and did not bother to verify the documentary evidence they presented to him. Ask why he did not check from the Bank of Ghana he said he had no idea about that. It seems some level of ignorance and taken for granted assumptions play a role in the persistence of the criminal activities in the microfinance sector. Most of the customers have no idea about how to cross check the genuineness or otherwise of the companies and have to rely on other people accounts or report. This was probably the case because they were not highly educated to appreciate the need for double checking and due diligence.

[33] See Donald Cressey, 1953

For those who were educated and could have easily ascertained the credibility of the company were also blinded by their whimsical thoughts about the benefits that will have accrued to them either directly or indirectly and took things for granted. The saying “buyer must be aware” was probably lost on them. Unfortunately for them, it was not well as in less than seven months, the owners bolted with their deposits.

The Love Bombing Strategy

From interactions with the participants, one of the key strategies that was found to have been used to entice people to the scheme was “love bombing”[34] Love bombing is an attempt to influence a person by demonstrations of attention and affection. It can be used in different ways and can be used for either a positive or negative purpose.[35]. It is also used by cult groups to entice or lure and retain new members to the cult. This involves showering gifts on potential members and promising to do more if they join the group. Whiles the community leaders denied ever benefiting from the company, most of the participant were of the opinion that they were given gifts and some concessions. A participant even hinted that the community leaders were promised shares in the company. This was also denied by the community leaders. On the part of the customers, they were promised loans and support for their businesses after six months of saving with the company. The usual promise of having their deposits doubled or tripled as loans was key a factor that motivated the customers to save with the company. One customer indicated, they find it difficult to secure loans to support their businesses from the traditional banks. That is why they seek help form the microfinance companies.

As some researchers have observed, there are two primary problems that face institutions wanting to lend money to the poor and these are lack of information about the borrowers and lack of collateral. The authors assert that microfinance institutions have programmes for such groups that are designed to extenuate these problems.[36] These offers promised the firm were indeed attractive or juicy in the face of the difficulties they have with securing loans from the formal banks and their terms and conditions. Once again such bureaucratic tendencies creates “opportunity” for fraudster to come up with schemes that is less cumbersome in order to attract unsuspecting customers .[37]

Preying Factors

This is the one-million-dollar question-why people continue to fall prey to the Ponzi schemes and other fraudulent activities in the financial sector remains a puzzle to be unraveled. When we asked why they still fell victims in spite of the numerous case of such fraudulent activities reported in the media, the participants gave very interesting views. The very first reason in the case of the New Stone Global Microfinance was the goodwill of the local leaders who canvass for customers. As indicated earlier, most of the local leaders who got involved were respected by the locals. Thus they were of the opinion that once those individual were involved, then the company was credible. As one participant highlighted:

[34] S. Hassan, *Combatting Cult Mind Control* (Rochester VT: Park Street Press, 1988).
[35] SP Pretorius, ‘The ‘love’ that religious cults offer and its effects on members’ (2013) 49 Tydskrif Vir Christelike Wetenskap | Journal for Christian Scholarship 181-201.
[36] B Armendáriz de Aghion and J Morduch *The Economics of Microfinance* (Cambridge, Massachusetts: The MIT Press, 2005).
[37] See Donald Cressey, 1953

> Who would have ever doubted a person like… (She mentions a Rev, minister's name)? We all trusted him because of his past record and his good intentions to assist the weak and the vulnerable in this society. I have known him for a long time and there is no way I would never have ever (sic) thought that the company he was recommending to me was one of the 'azaa' [fraudulent] ones.

In a response to these concerns, another person said that:

> The main attraction was the double-up beat… where customers were promised a double or even more of their deposits as loans within six months. This offer was very attractive since most of the petty traders found it difficult securing loans from the traditional banks.

Another participant also reiterated similar sentiments. For her, she puts all the blame on the neglect by the traditional banks for neglecting traders in the informal sector especially petty traders. She said:

> The microfinance people (referring to the agents of the microfinance) were very friendly, they made it easy for us to save and also get loans for our business. The banks are not like that. Especially to those of us who have not been to school, they make you feel less human by the way they talk to you. I felt more comfortable dealing with officials of the microfinance than the banks … they are something [referring to the staff of the traditional banks.

Apart from the "double-up" attraction, most of the participants who have had interaction with traditional banks complained about the bureaucratic processes one has to go through in order to secure loans and the attitude of bank officials towards customers which they said was poor, unfriendly and unprofessional. The attraction was that, the microfinance officials go the clients to collect whatever funds they want to deposition. This according to some of the customers, makes it easy for them to save since without that, they could not accumulate funds on their own. One of the community leaders, also asserted that if the traditional banks will vary their operations a bit and make it friendlier to those in the informal sector, it will make the microfinance companies less attractive. He further stressed that sometimes the customer service officers' attitude towards those in the informal sector and especially the less educated are very intimidating. It is because of some of these reasons that make the petty traders prefer dealing with the microfinance companies than the traditional banks.

One of the customers bluntly put it this way:

> They are not too rigid like the banks. They make you feel important and respected. Look! My house is just opposite the Commercial Bank (she points in the direction of the bank) but they will not walk to this shop to collect our deposits because either they are not interested in our funds

> or they feel we do not matter, but the microfinance people will locate you and take your deposit and also show respect to you.

Finally, word-of-mouth marketing strategy adopted by the company did work perfectly for the company. This involve an instance where customers share information about a product with others directly or via face-to-face interaction. Almost all the participants joined the firm through this medium. Given the close-knitted nature of the community, most of the people who heard about the company from their churches also informed their relatives and relations about the company. The cashier of the company opined that it was her aunty who heard about the company and asked her to apply for a position because they were recruiting people. As condition of employment, they were asked to opened accounts with the company so that the can also benefit from the “double-up” cliché.

Indeed, the use of the local leaders helped attracted about 70 percent of the customers to the operation of the microfinance. They relied heavily on the recommendations of the opinion leaders instead of verifying the authenticity of the company by themselves. After all, the basic rule when it comes to commerce and other business transactions is *caveat emptor.* This is Latin concept which means that let the buyer beware-the buyer assumes the risk in a transaction and should therefore take all the steps to ensure that he or she is not shortchange. While it cannot be denied the customers might have been careless in their quest to join the company, although some did doubt the credibility of the company and made efforts to verify its authenticity. One of them told me that she asked a couple of knowledgeable people to counsel her and all of them cautioned her to be careful because they could not get information on the internet about the company. So why then did she sign up? This takes us to the next important factor.

The Fear of Missing Out (FOMO)

Some of the customers who harboured doubts about the credibility of the company and still went ahead to join because they were virtually afraid of missing out on the goodies the company had promised to offer their customers. They thought that this was an opportunity to get loans to support their businesses. One of the participants indicated that:

> I felt there was something wrong with the company because of the aggressive way they were marketing the company coupled with all the recommendations from other people. Yet, something also told me if I do not take the risk, I may also not again anything. I was just not willing to lose out on their “double-up promise”. It was a gamble.

Treatments of Suspects by the Police

One key concern of almost all the participants was how the managers and some of the persons who were connected to the company were handled by the security agents after the customers helped apprehended some of them. In the case of New Stone, two of the perpetrators were apprehended by the police, however they were all not prosecuted as the customers were anticipating. According to the participants, the local manager of the company was arrested by divisional police command, yet he is still walking a free man. He was not even sent to court for prosecution. A participant indicated that:

> The police arrested two of the criminals yet they did not do anything to them and our monies were also not paid to us"… as usual, they (referring to the police) took money and left them.

Unfortunately, none of the participants could explain why the manager was not sent to court. All efforts to contact the manager and police for their side of the story proved futile as they kept postponing the appointment. Police informed me that all the officers who were involved in the case have been transferred to other places. My interaction with the participants also revealed that they had a strong suspicion that the manager bribed his way out of the prosecution. Asked why they did not report the conduct of the officials at the divisional police to their boss at the regional headquarters, they had varied opinions. The most common theme was that there is corruption in all the institutions, therefore if he could bribe the divisional police, he will equally bride any other official. While this assertion is obtuse in terms of its logic, one cannot fault the customers for holding such views. This is because, there is a common belief in Ghana that people who work in government bureaucracies are corrupt especially the police. A participant shared his experience with the police that:

> I spent almost two months going up and down just to follow up on the case. I spent money and my precious time and yet nothing came out of all my efforts. Frustration, and threats were my rewards. The officers kept tossing me up and down, always giving different excuses till I noticed that I could not go on wasting my time and energy on a matter that is going nowhere.

He said whiles he was following on the case, the suspect-the local manager had been released and was enjoying his booty. The interesting twist to this fraud and criminality was that some of the participants alleged that the same local manager, was also working for a Ponzi scheme that has also collapsed recently in Ghana.

Regina opined that:

> Because they did not punish them, this same rascal [referring to one of the local mangers] is also involved in another fraudulent business [another fraudulent financial institution that has duped thousands of Ghanaians in recent times] .He was working for them [mention a company's name] and introduced some people to … [mentions the name of a company] They [the police] are now after him once again but I know nothing will happen to him and criminal [sic] gangs. Even if they arrest them, they [local manager and his cohorts] will pay a bribe and g their freedom.

Teacher said:

> The criminals are walking free…our time was just wasted by going to the police station for months. They were not even sent to court for us to say they were freed by a court.

This is where we see the broken window concept at play, because these alleged fraudsters have escaped punishment in one fraudulent case, it has emboldened them to get involved in even a greater criminality.

Fraud and Financial Inclusion

The effects criminal acts have on the microfinance sector of Ghana's economy and financial inclusion is ominous. First almost, all the respondents interviewed said their experiences with New Stone Global Microfinance have affected their perceptions about micro finance companies. When inquired about their current attitude towards financial institutions and whether they have accounts with any financial institutions, 6 of the participants said, they have bank accounts with rural and commercial banks. They added that they use the accounts only for their salaries and official transactions and not for savings or investment. One of the participants emphasized:

> I have a bank account but it is not meant for savings or investment purposes. I maintained that accounts because of my monthly salary, else I would have closed it long ago… You can check my balance…look they [referring to financial institutions] are all the same and I don't want to fall a victim twice.

About 5 of the participants indicated that they have closed their accounts with other financial institutions because of the bad experiences they had with the company. Ask where and how they save their monies all of them said they save their monies themselves at home. Despite the high risk (such as criminals stealing the monies or fire outbreaks burning the home and the monies), associated with keeping monies at home these customers said they preferred keeping their monies themselves than to save with other institution.

A Participant said:

> Since I moved to Madina (a suburb of Accra), I joined another one microfinance finance thinking that it will be better because it was in Accra, that was even worse. They also bolted with the money. I was later told that it is even more common here than Aburi. Since then, I have decided to be my own bank. I do not save with any bank or microfinance company. Women's Bank (one of the insolvent banks) did ask me to open accounts with them so that they will give me loans to expand my business but I told them no…not at all… "Nea owo aka no suro osunson" to wit (once bitten, twice shy"). I will never make that mistake again. Look, all of them are criminals they are only interested in the monies not their customers.

The resolve of these customers not to save their monies with financial institutions is so strong that I wonder what can make them change their minds. Another participant said:

> I prefer to save my money in cement and blocks than to put it in some criminals' bank for them to 'chop it' [embezzle], I'm wiser now. I will not put myself in such a mess again. Because of the way these people (the managers of the company) bolted with our deposits, I have vowed not deal with any such institutions again and to be sincere with you I'm determined to keep my word.

While most of the literature do not talk about criminal activities in the microfinance financial sector as a disincentive to financial inclusion, the data gathered so far seems to support the notion that when customer get defrauded by financial institutions it undermine the willingness of the victims to do business with other financial institutions. This is because such acts undermine trust which is an essential ingredient in the survival of financial institution and especially, microfinance companies. No individual will like to put his or her money in the hands of people who are not trustworthy. While 6 of the participants claimed they have Mobile Money accounts.

As has been noted by Littlefield and Rosenberg[38], the micro-finance institutions have emerged to address this market failures by addressing this gab in the market in a financially sustainable manner[39]. Some researchers have underscored the important role microcredit can play in achieving the Millennium Development Goals[40]. I believe the same can be said of the role it can play in the attainment of the Sustainable Development Goals which seek even more expanded global development goals such as eradications of poverty and all forms of inequality. The achievement of such lofty goals stands in great perils if people lose trust in the very institutions that are supposed to be conduits for the realization of these goals.

CONCLUSION

The paper did explore the issue of criminality in the microfinance sector-fraudulent setting up of microfinance schemes with the sole aim of defrauding unsuspecting customers and their implication for financial inclusion. Microfinance institutions have gained popularity in Ghana because of the opening up of the economy in the 1990s and the need to engender financial inclusion of the poor and those operating small businesses who were not covered by the traditional banks. However the mushrooming of these institutions have also brought in its wake some serious challenges notable among them defrauding of customers by some of the firms. The study in particular assessed how such firms attract customers-their modus operandi, the effects of these crime on financial inclusion efforts among others. The study has so far established that criminality in the microfinance sector of Ghana’s economy is a reality. Most people have fallen victims due to number a of factors including the shrewd community-entry stratagem, fear of losing out on an opportunity to receive financial support or acquire loan.

From the discussions, it is obvious that the microfinance sector is populated with some charlatan firms who have been defrauding customers. This is borne out of the fact that there is lack of proactive monitoring of the sector by the agencies mandated to regulate it. This gives such criminals who want to defraud customer a field day. The prospective criminal have assessed the sector and noticed that criminal opportunities do exist. Moreover, almost all previous crimes were not punished and thereby incentivizes the perpetrators. The happenings in the sector affirm the broken window of crime. That is, because past signs of lack of care and proactivity are still inherent in the sector, it will still continue to send signals to criminals that the sector is not protected.

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[38] See Littlefield and Rosenberg, 2003.

[39] Littlefield and Rosenberg (n 4).

[40] E. Littlefield, et al, ‘Is Microfinance an Effective Strategy to Reach the Millennium Development Goals?’ Focus Note Series No. 24. CGAP-Consultative Group to Assist the Poor, (Washington DC, 2003), A. Simanowitz, and A. Brody, ‘Realizing the Potential of Microfinance’ 51 Insights 1-2.

As a preventive measure, the study proffers that, the solution to this problem lies in the fixing the "broken windows", engaging in proactive monitoring and education, reducing opportunities for such crimes and making it expensive to commit such crimes. Fixing the broken windows connotes efforts aimed at taking away all signs of disorder and lack of care in the sector. In the minds of some the participants, these crimes are not treated seriously by state agencies including the police because it affects mostly the poor, the weak and the socially excluded segments of the population. This is not wholly correct as recent events have shown that all category of people can fall prey to such crimes. The belief seem to be global among the victims that is they did not get attention of the security agencies because of their poor socio-economic status. The lack of prosecution on the part of the police for whatever reasons, and the non-involvement of the regulatory agencies when the fraud was detected seem to make the case of the participants very strong. Officialdom have the tendency to put the blame on the victims for their lack of due diligence and gullibility or ignorance. However, the panacea to this problem does not lie in the blame game but rather, in a proactive monitoring and continuous education of the populace who are prone to falling victims to these crimes.

Proactive monitoring and continuous education in this context means that state institutions and agencies should not wait for these crimes to occur and fester before they take action. The agencies setup to superintend the sector should develop and deploy stringent monitoring and surveillance regime in order to forestall the occurrence of criminal activities which have plagued the sector. Developing strong partnership with other intuitions such the National Bureau of Investigations, who have their presence in all their districts and have intelligence gathering skills to detect these crime at the inception stage and nib it in the bud is a more proactive measure. Education about these crimes should be a continuous engagement and not once awhile venture because of the creativity and sophistication that criminal are resorting to committing these crimes. This can reduce opportunity for these crime and help protect the vulnerable in society.

Finally, crime prevention efforts in the sector should be swift and punitive enough to deter will-be offenders. Regulatory agencies should be able crack the whip on those who falter without fear or favour. If the laxity and ineptitude on the part of state institutions and agents continues, it cannot be guaranteed that the socially excluded will be part of the financial inclusion agenda and the attainment of the SGDs will be materialized. The more these crimes are allowed to persist, the more the citizens will lose interest in formalizing their financial transactions.

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