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GHANA'S MICROFINANCE SECTOR: CHALLENGES, RISKS AND RECOMMENDATIONS

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Table of Contents

Acknowledgment	iii
Acronyms	iv
EXECUTIVE SUMMARY	v
I. Introduction	1
II. The Evolution of Microfinance in Ghana	2
III. Challenges of Implementing the Microfinance Regulations	5
Implementation	6
The Role of MFI Associations	9
Consequences.....	11
IV. Risk Analysis	13
Bank of Ghana	13
Microfinance Companies (MFCs) and Money Lenders	15
Savings and Loans Companies (S&Ls)	16
Rural and Community Banks.....	16
FNGOs	18
MFI Associations	22
Government Intervention	24
Financial Consumer Protection and Financial Capability	25
V. Strategic Options and Recommendations	26
Improving the Policy, Legal and Regulatory Framework	27
Improving Implementation of and Compliance with MFI Regulations.....	28
Improving Capitalization	29
Restructuring MFI Associations	29
Developing a Strategic Framework for Financial Inclusion	29
Bibliography	31
Annex I: Bank of Ghana Operating Rules and Guidelines for Microfinance Institutions.....	35
Annex II: Summary of MFI Associations and Functions by Subsector	41

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Acronyms

AFSAP	Agricultural Finance Strategy and Action Plan
ASCA	accumulating savings and credit association
ARB	Association of Rural Banks
ASSFIN	Association of Financial NGOs
BOC	Banking on Change
BoG	Bank of Ghana
CARE	Cooperative for Assistance and Relief Everywhere
CBF	Capacity Building Fund (RAFiP)
CGAP	Consultative Group to Assist the Poor
CRS	Catholic Relief Services
CU	Credit Union
CUA	Ghana Cooperative Credit Unions Association
EDAIF	Export Trade, Agricultural and Industrial Development Fund
EMCB	Economic Management Capacity Building Project
FINDEX	Financial Inclusion Database
FINSSP	Financial Sector Strategic Plan
FNGOs	Financial NGOs
GAMC	Ghana Association of Microfinance Companies
GCSCA	Ghana Cooperative Susu Collectors Association
GHASALC	Ghana Association of Savings and Loan Companies
GHAMFIN	Ghana Microfinance Institutions Network
GHAMP	Ghana Microfinance Policy
GHS/GH¢	Ghana Cedis
GIZ	German Development Cooperation
GIZ/RF	GIZ Responsible Finance
GoG	Government of Ghana
HIPC	Highly Indebted Poor Country
IFAD	International Fund for Agricultural Development
MASLOC	Micro and Small Loans Centre
MFI	Microfinance Institutions
MiDA	Millennium Development Authority
MIS	Management Information System
MIX	Microfinance Information Exchange
MLAG	Money Lenders Association of Ghana
MoF	Ministry of Finance
MSEs	Micro and Small Enterprises
NGO	Non-Governmental Organization
PFI	Participating Financial Institutions
RAFiP	Rural and Agricultural Finance Programme
RCBs	Rural and Community Banks
RFSP	Rural Financial Services Project
ROSCA	Rotating Savings and Credit Association
S&Ls	Savings and Loan Companies
SEEP	Small Enterprise Employment and Promotion network
SILC	Savings and Internal Lending Communities (CRS)
SPEED	Support Programme for Enterprise Development and Development
SPSD	Support to Private Sector Development (Danida)
VSLA	Village Savings and Loan Association

EXECUTIVE SUMMARY

1. Microfinance grew rapidly in Ghana during the 2000s in existing financial institutions, raising the percentage of the population that is banked and financially included. Microfinance institutions (MFIs) reach around 8 million clients, with more outlets than the commercial banking system. Although not all such institutions were regulated by the Bank of Ghana (BoG), capacity building, oversight and monitoring support from MFI associations and donor-supported programs helped ensure stable growth.

2. During the late 2000s, however, proliferation of new types of unregulated microfinance service providers disrupted the system, with increasing incidents of fraud, insolvency, and loss of savings by low-income households. In 2011, the BoG issued Guidelines for Microfinance Institutions to bring all types under a consistent regulatory framework.

3. The current MFI legal framework takes a tiered approach, consistent with emerging international trends. Those already being licensed by BoG are deposit-taking institutions in Tier 1 (Rural and Community Banks [RCBs] and Savings and Loan Companies [S&Ls]). Deposit-taking institutions in Tier 2 include Credit Unions (CUs), which are long-established and supervised by their association (i.e. Ghana Co-Operatives Credit Unions Association), and Microfinance Companies (MFCs), a newly-designated category to accommodate the new forms of businesses engaging in micro-finance services, which are supervised by BoG. Tier 3 includes Financial Non-Governmental Organizations (FNGOs), which had helped introduce modern microfinance methodologies since the 1990s, and Money Lending Companies, a new designation for those business engaged in lending; both are non-deposit-taking in principle, (although they may take compulsory savings held as security against loans), and supervision by BoG for Tier 3 (especially FNGOs) tends to be lighter than for MFCs.¹ Tier 4 is reserved for individuals engaged only in savings (Susu Collectors) or in lending (Money Lenders). Licensing/registration, capital and other requirements are tailored to the different capacities, sizes, and levels of risk across the tiers.

4. The new regulations faced difficult challenges of implementation, largely because they were imposed on a very large number of existing institutions without adequate prior capacity building of regulators, MFIs, and their associations. The regulatory net was cast wide in an attempt to minimize “regulatory arbitrage” by allowing some types of MFIs to escape regulation, and requirements were initially set low in order to bring as many operators into the system as possible. It took BoG some two years to build up the staff capacity to handle the influx of over 700 applications and then to sort out compliance of provisionally-licensed MFIs with the full licensing requirements. It has taken even longer to develop and implement reporting templates suited to the operations and capacities of MFIs, many of which lacked adequate management information systems (MIS) and accounting skills.

¹ Money Lending Companies, similar to Finance Houses, although supposedly non-deposit-taking, often mobilize funds from the public by offering interest on “investments,” which are sufficiently close to term deposits that BoG is raising their minimum capital requirement to the same level as for deposit-taking MFCs

5. BoG has worked with MFI associations to facilitate the implementation and reporting process. Ghana has seven different categories of MFIs that have developed their own subsector associations over time, as the legal/regulatory framework and microfinance methodologies have emerged.² These associations are represented on the Board of the Ghana Microfinance Institutions Network (GHAMFIN), the umbrella institution for the microfinance sector. They have facilitated capacity building, introduction of microfinance good practices, monitoring and benchmarking, and setting standards, often supported by Government and donor programs to perform these “public goods” functions. Generally, these associations do not have prudential supervisory or enforcement functions as such. Nevertheless, individual Susu Collectors and Money Lenders are expected to register with and report to their respective associations (i.e. GCSCA and MLAG) which are to exercise due diligence on members before licenses are issued and to report aggregated statistics and cases of non-compliance to BoG. The industry associations were instrumental in sensitizing MFIs about the new regulatory framework and training them on application, compliance, microfinance techniques, and new reporting formats recently developed by BoG with support from the GIZ Responsible Finance (GIZ/RF) program. However, most associations and their training programs depend heavily on external funding and subsidies, most of which are ending with the closing of GIZ/RF and the Rural and Agricultural Finance Program (RAFiP) in 2016. BoG has provided some support to a few associations, but this is not systematic or certain. Thus, a review of the institutional structure is needed with a view toward consolidation and streamlining of the functions of MFI associations in a sustainable way. This type of review should ideally precede and inform any decision for committing additional public resources to this end.

6. Collapse of a substantial number of microfinance operators was inevitable as part of the transition to a more robust, professionalized microfinance industry. BoG has revoked provisional licenses of non-compliant MFIs, publicized those operating illegally without licenses, and raised minimum capital requirements (to deter unqualified new entrants, as well as to encourage existing MFIs to strengthen their capital base). BoG has substantially clarified which MFIs are operating legally and properly. However, public perceptions remain adversely affected by persistent closures and loss of savings and by poor understanding of the licensing process, its intended benefits, and what it can and cannot do in terms of protecting deposits (or ‘investments’) in high-risk instruments promising high returns. At the same time, BoG is limited as to the extent it can enforce regulations without going to court. BoG is planning to embark on a public awareness effort in the short term, though the only sustainable solution will rest in its ability to reform the sector and strengthen regulatory and enforcement capacity. In addition, in the medium term BoG will need to operationalize its market conduct function, while in the long term the authorities need to embark on addressing financial capability of consumers through a targeted and prioritized financial education strategy that builds on the existing materials and programs, as opposed to ad-hoc interventions.

7. Further capacity-building of MFIs and better enforcement is needed to help improve performance and reporting and reduce failures. Many MFIs (especially MFCs) suffer from inadequate financial management and governance structures. Better regulation, along

² This does not include Village Savings and Loan Associations, which so far remain unregulated as community-based, member-run self-help and self-regulated groups, generally supported by NGOs; also, there is no subsector association of VSLAs.

with continuous training and upgrading of computer and management information systems (MIS) is needed. However, willingness to pay for training is low, and many small MFCs either cannot afford the costs and/or understand the benefits of computerization to assume such costs and comply with the revised reporting requirements. In this regard, BOG needs to consider stricter enforcement and/or adjustment of regulations in the context of broader reform of microfinance sector. Although MFI associations have been useful in organizing training for their members, and some have established training centers, they depended heavily on outside funding for this purpose. In this regard, a new and sustainable approach for capacity-building of the MFI sector needs to be considered.

8. A regulatory strategy for further regulation of the MFI sector is needed to provide vision for the sector in the medium term and enable BOG to effectively enforce its regulatory mandate. While efforts are underway to integrate the financial regulatory frameworks and improve consumer protection, greater strategic clarity is needed on how new legislation and regulations can help address the challenges that the microfinance sector is facing. Some of the recent initiatives include the proposed Banks and Specialized Deposit-Taking Institutions Bill and the Deposit Protection Bill, which have been awaiting Parliamentary action since mid-2015. The latter is expected to cover regulated deposit-taking financial institutions that are licensed and supervised by BOG, apparently including Tiers 1-3 MFIs, as well as universal banks, RCBs and S&Ls, though it is not yet entirely clear to what extent and how some of the MFIs that take deposits (as defined by BoG) from the public would be phased in, given the wide range in their performance and capabilities. BoG also needs to take steps to establish and fund the Supervisory Board recently authorized by a Legislative Instrument to oversee supervision of Credit Unions by their association, in collaboration with the Department of Cooperatives.

9. Low capitalization impedes the performance of many RCBs, S&Ls and MFCs and their ability to comply with increasing minimum capital requirements. While BoG raises minimum capital in part to limit entry, provide an adequate cushion against insolvency, and consolidate and stabilize the sector, many RCBs and other MFIs would also be better able to meet demands from the clients with greater capitalization. Mergers and consolidations may be opposed by the communities that have established RCBs, as well as by owner/founders of S&Ls and MFCs, and are unlikely to happen unless BoG moves more aggressively to sanction those not meeting the higher standards. Many RCBs need to clean up their share registers in order to mobilize additional capital, but are unlikely to do so unless a systematic approach and funding are available. Finally, there may be cases where deposit taking institutions may not be able to meet the new requirements resulting in their exit and requiring their resolution; in this regard development of a resolution framework for MFI sector could be useful.

10. Although the Government has not intervened directly in the operation of MFIs, there have been persistent efforts to provide subsidized, often directed credit. While the government has avoided direct controls on interest rates and intervention in MFIs, it periodically provides subsidized and directed credit through projects and the Micro and Small Loans Centre (MASLOC). Repayment tends to be poor in government credit programs. The public appears able to distinguish them from loans of the MFIs' own funds, which borrowers are more willing to repay, though poor portfolio performance is a problem for many RCBs and MFIs that serve as channels for government credit schemes. Any provision of public funds for development finance

needs to be carefully designed to avoid market distortion and ensure sustainability and should be implemented only through well-performing financial intermediaries (i.e. in this case MFIs) that meet strict eligibility criteria (e.g. financial due diligence, including full compliance with prudential norms). In this regard, an institutional review of public development finance schemes in support of microfinance sector is warranted to ensure their sustainability and effectiveness, safeguard public resources, and avoid market distortions.

11. A financial inclusion strategy is needed that includes strategic pillars for implementing MFI regulation, funding, and capacity building, as well as financial consumer protection and financial capability. Both BoG and MoF have subscribed in principle to financial inclusion, initial stakeholder consultations have been held, and preparation of the strategy is now being planned. A strategic approach is needed to return Ghana to a proactive, rather than reactive approach to microfinance development and regulation. GIZ/RF has previously supported setup of the MoF task force, which now needs to move forward with stakeholder consultations to agree on definitions, scope, objectives, strategic pillars and targets. This will require both political leadership and technical assistance. Most recently, the World Bank has secured technical assistance support for development of National Financial Inclusion Strategy.

12. Specific recommendations to address the challenges and risks are detailed in the table below, with respect to:

- improving the policy, legal and regulatory framework;
- improving implementation of and compliance with MFI regulations;
- streamlining the institutional support framework; and
- developing a strategic framework for financial inclusion.

Recommendations for Microfinance Regulation and Financial Inclusion

Objective	Recommendations	Responsibility	Time Frame
Improve the policy, legal and regulatory environment			
Institutionalize supervision of Credit Unions consistent with NBFIs Act and MFI regulations	<ul style="list-style-type: none"> • Establish and budget for Supervisory Board authorized by Legislative Instrument on Credit Unions • Assess costs of supervision, their financing, and capacity of CUA and Department of Cooperatives to implement 	BoG	2016 2016-17

Address performance challenges in MFI sector	<ul style="list-style-type: none"> • Develop Regulatory Strategy for MFI sector, along with an implementation action plan, including the issues of strengthening MFIs, improving capitalization, credit reporting, and restructuring the support institutions 	BoG	2016-17
	<ul style="list-style-type: none"> • Assess how to incorporate data on MFIs into the formal credit reporting system 	BOG	2016-17
Improve implementation of and compliance with MFI regulations			
Clarity to public on licensed & unlicensed MFIs	<ul style="list-style-type: none"> • Complete processing or revocation of provisional MFI licenses 	BoG	2016
	<ul style="list-style-type: none"> • Explore ways to strengthen BoG's enforcement capacity 		2016-17
	<ul style="list-style-type: none"> • Develop and execute interim public awareness campaign to provide better public information on the risks of MFIs that may continue to operate illegally 		2016
Improve reporting	<ul style="list-style-type: none"> • Provide training on utilization of new MFI reporting template 	BoG, MFI Associations	2016
Strengthen operational capacities of MFIs	<ul style="list-style-type: none"> • Assess MFI capacity and training needs to comply with regulatory requirements and review capabilities and sustainability of existing training institutions. 	BoG, MFI Associations	2016-17
Improve governance of MFIs	<ul style="list-style-type: none"> • Define standards for selection, training and certification of Directors of MFI Boards 	BoG	2016
Facilitate consolidation and capitalization among MFIs	<ul style="list-style-type: none"> • Support GAMC and GHASALC to consult with members and BoG to prepare strategy toward orderly consolidation to comply with minimum capital requirements 	BoG	2016
	<ul style="list-style-type: none"> • Develop a resolution framework for MFI sector 		2016/17
	<ul style="list-style-type: none"> • Sanction RCBs and MFCs that fail to make progress toward new minimum capital requirements 		2017-18
Appropriate sharing of cost burden of regulation	<ul style="list-style-type: none"> • Estimate costs of implementing and complying with the Guidelines for MFIs (including Board for Credit Union supervision), and investigate options for ensuring better compliance 	MoF, BoG	2016-17
Streamline the institutional support framework			
Sustainability of	<ul style="list-style-type: none"> • Conduct institutional review of the MFI 	MOF, BOG	2016

MFI Associations	associations in terms of roles, capabilities, effectiveness, scope for consolidation of functions, and sustainability		
Effectiveness of public finance programs	<ul style="list-style-type: none"> Review effectiveness of public development finance schemes and institutions in support of microfinance (i.e. MASLOC)³ 	MOF	2016
Develop strategic framework for financial inclusion			
Financial capability	<ul style="list-style-type: none"> Develop a financial education strategy, along with prioritized and costed action plan 	MoF, BoG,	2016-17
Strategic framework	<ul style="list-style-type: none"> Develop and adopt National Financial Inclusion Strategy⁴, along with costed implementation action plan 	MoF, BoG	2016-17

³ Planned with the support of World Bank

⁴ Initiated with the support of World Bank

I. Introduction

1. Broadening and deepening financial inclusion in Ghana is important for ensuring inclusive growth and achieving the objectives of the Financial Sector Strategic Plan (FINSSP

2). Deeper and more inclusive financial sectors allow poor households to manage risks and smooth consumption; they provide opportunities for very micro and small enterprises to survive and grow; they can bridge geographical dispersion by providing access to savings and payment services to populations in rural and remote regions. Ghana fares well on some indicators of financial inclusion compared to other Sub-Saharan African countries, and is comparable to lower middle-income countries (see Figure 3). However, it lacks a clear strategy for financial inclusion and development of microfinance institutions (MFIs) and other methodologies of making financial services more widely available.

2. Microfinance - the provision of savings, credit, and other financial products to the poor - grew rapidly in Ghana during the 2000s in existing institutions, performing well by international benchmarks for MFIs and raising the percentage of the population that is financially included.⁵ While the universal banks have the bulk of the assets of the financial system, microfinance institutions (MFIs) reach more clients (around 8 million) through over 3,000 outlets spread throughout the country. Although not all such institutions were directly regulated by the Bank of Ghana (BoG), capacity building, oversight and monitoring support from MFI Associations and donor-supported programs helped ensure stable growth. During the late 2000s, however, new types of unregulated microfinance service providers proliferated, increasing the number of operators who lacked sufficient capacity, skills, governance, transparency, and accountability to act as responsible financial intermediaries. This posed a risk to the sector, with increasing incidents of reported fraud, insolvency, and loss of savings by low-income households. In 2011, BoG initiated measures to bring all types of MFIs under a consistent regulatory framework by issuing Guidelines for MFIs.

3. This paper summarizes the situation and development of microfinance institutions in Ghana, reviews progress and problems in implementing the BoG regulations for MFIs, highlights current risks and challenges, and proposes strategies for mitigating risks. The analysis includes three different levels: BoG and Government of Ghana (GoG); MFIs and their associations; and the public. It is aimed at providing information on the complex issues in the microfinance sector as a basis for dialogue on concrete reforms.

4. The key objective is to determine what strategies are most likely to strengthen microfinance sector and promote financial inclusion in Ghana by addressing:

For Regulators:

- the challenges and costs of implementing the regulatory framework;
- the current risks in the microfinance market;
- strengthen and implement financial consumer protection regulations

For Microfinance Providers:

- the challenges of complying with the regulatory framework and reporting;

⁵ Global FINDEX data show that 40 percent of all adults had an account at a formal financial institution in 2014 compared to 29 percent in 2011.

- the roles and sustainability of MFI Associations that facilitate capacity-building of members and regulatory compliance or (non-prudential) self-regulation.

For Regulators and Microfinance Providers:

- the need for a systematic, coordinated approach to financial capability and focusing on realistic approaches with proven results.

II. The Evolution of Microfinance in Ghana

5. The spread of microfinance methodologies during the decade of the 2000s helped raise financial inclusion in Ghana. The number of total clients of MFIs grew from 1.3 million in 2001 to 3.5 million in 2006, to 5.5 million in 2010, and finally to around 8 million by the end of 2013⁶. Microfinance has reached a wide range of market niches in Ghana, from rural smallholders to traders to urban small enterprises, due to the variety of different types of institutions engaged in microfinance (most of them savings-based), including: rural and community banks (RCBs), savings and loans companies (S&Ls), credit unions (CUs), financial non-governmental organizations (FNGOs), and mobile savings collectors (known as *susu* collectors).

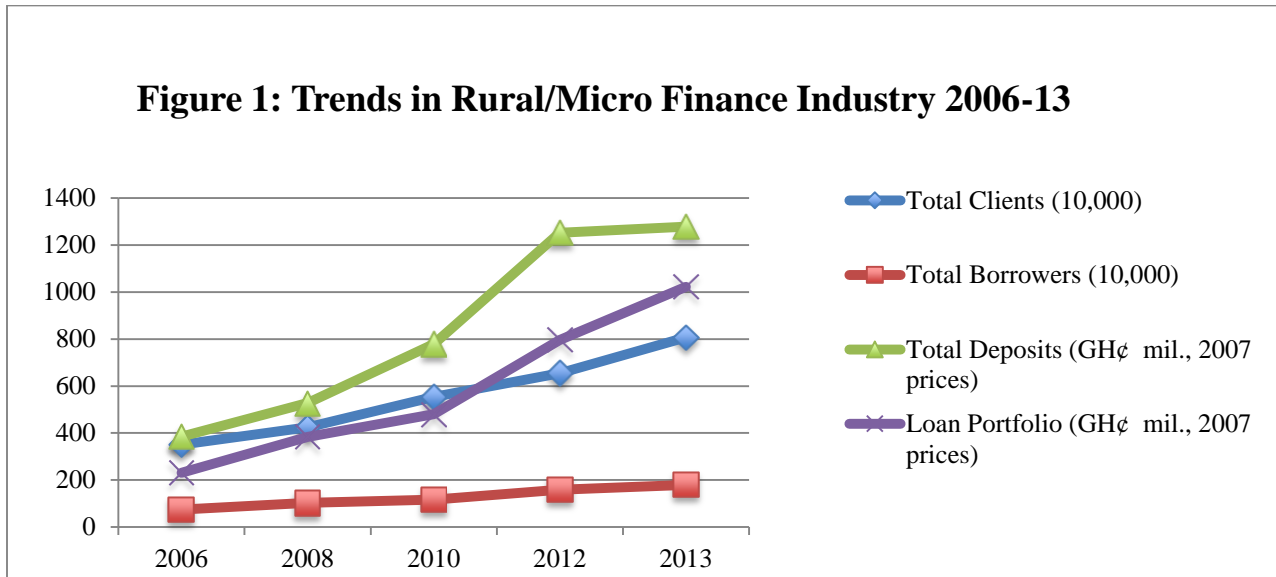
6. During the latter part of the 2000s, however, the microfinance sector was disrupted by the rapid growth of businesses pursuing profit by mobilizing savings and investment from the public and lending out the funds at relatively high interest rates (typically 8-10 percent per month, more than double the normal rate of microfinance in the above-mentioned institutions). These were registered as companies by the Registrar-General (often with “*susu*,” “microfinance,” “capital,” or “financial services” in their name), but were not licensed by the Bank of Ghana (BoG) to take savings from the public (few would have had sufficient capital to meet the minimum required to become licensed as S&Ls). BoG and the Ghana Microfinance Institutions Network (GHAMFIN) began to receive a growing number of complaints from people who had lost their savings in such companies due to a combination of poor management, lack of capital, non-repayment of loans, and outright fraud. This led to GHAMFIN’s advocacy for regulation and subsequent BoG issuance of Guidelines for Microfinance Institutions (MFIs) in 2011, which broadly covered all types of microfinance and established the new categories of Microfinance Companies (MFCs) and Money Lenders. Section III discusses the process and challenges of implementing these Guidelines.

7. MFIs have maintained strong growth of clients, deposits, and, especially, loans. Over the period 2001-13, total clients of MFIs grew at an annual compound rate of 16 per cent, while deposits grew at 21 percent and loans at 26 percent in real terms (GHAMFIN, 2015 forthcoming). Growth in all cases (especially clients) was somewhat faster in the first half of the period (2001-06) than the latter, as the industry matured.⁷ Deposits in the entire MFI sector stagnated in 2013 largely because of a substantial drop in deposits in MFCs due to collapses and uncertainties

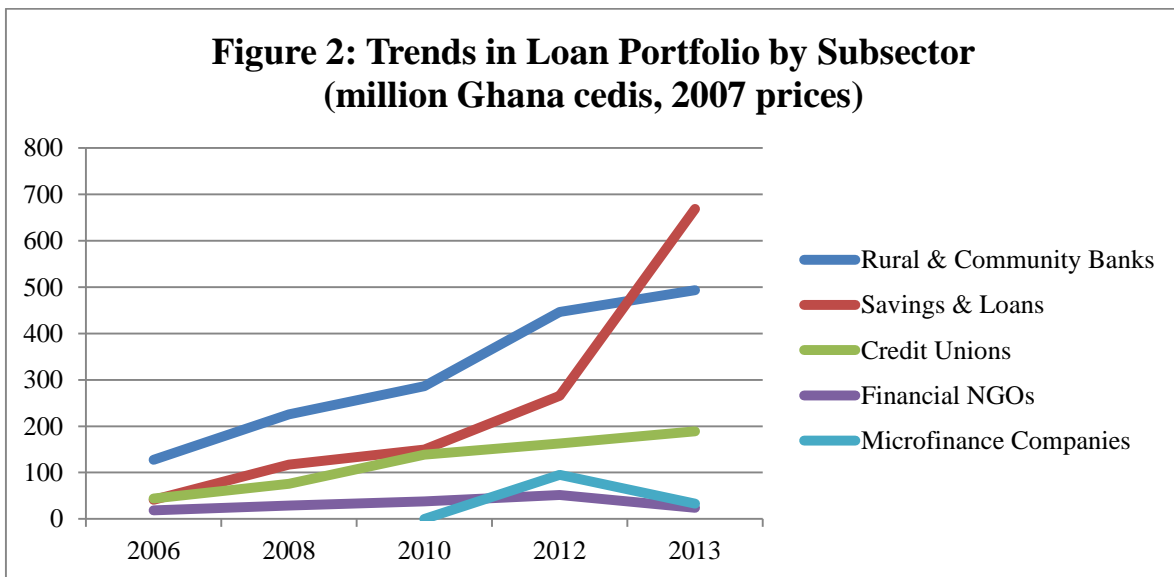
⁶ Ghana Microfinance Institutions Network (GHAMFIN), ‘Performance Monitoring and Benchmarking of Microfinance Institutions in Ghana: Trends in the Industry during the 2000s (2006-12),’ Accra, 2014. Total population over the age of 18 (minimum to open a bank account) is estimated at 14 million in 2012. Data on total clients are overestimated to the extent that people have multiple accounts, but underestimate the number of people reached through group accounts.

⁷ However, growth prior to 2013 is underestimated due to the lack of data on MFCs and Money Lenders.

associated with the introduction of licensing. Figure 1 depicts growth of industry aggregates from 2006 to 2013.



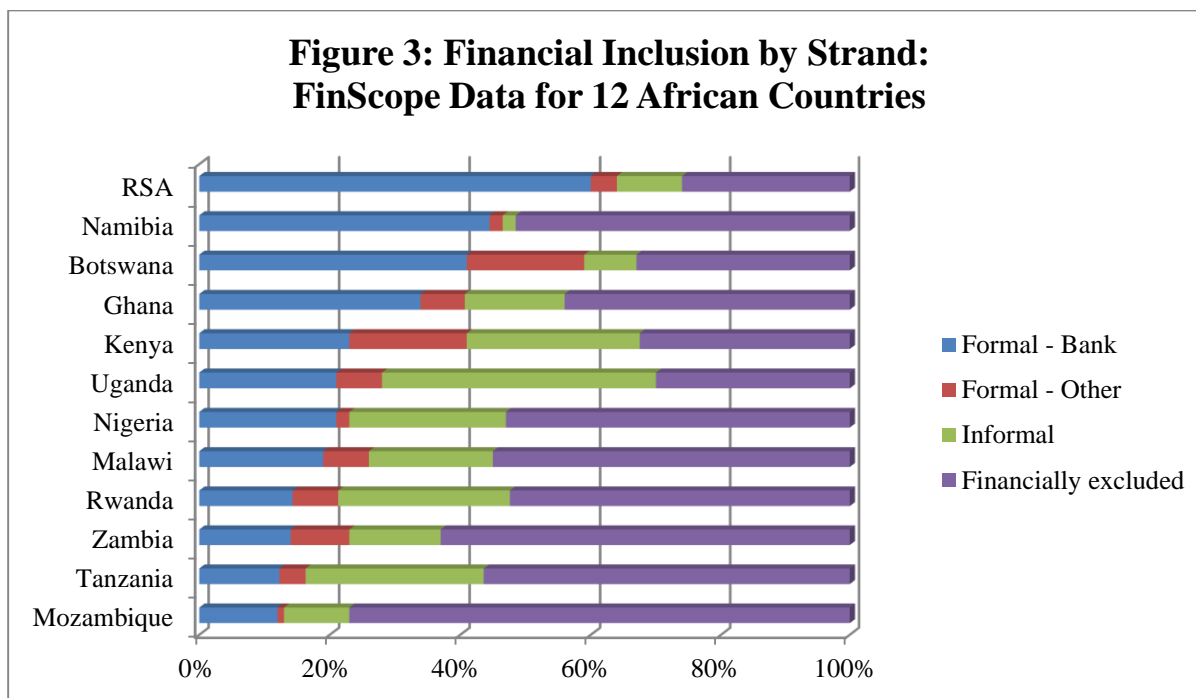
Source: Ghana Microfinance Institutions Network (GHAMFIN). 2014. 'Performance Monitoring and Benchmarking of Microfinance Institutions in Ghana: Trends in the Industry during the 2000s (2006-12),' and supplementary GHAMFIN data. Y-axis represents 10,000 clients/borrowers or GHS million. The cedi was approximately equivalent to one US dollar in 2007.



Source: GHAMFIN (2014), op cit.

8. While RCBs dominate client outreach, the composition of the industry has changed over time as new subsectors have emerged and grown, especially S&Ls. Figure 2 shows the growth in loan portfolios by subsector over the same period. The impact of regulation is represented by the emergence of MFCs in 2012 (data on them was previously lacking) and the decline in FNGOs (in part because of the conversion of the largest, Sinapi Aba Trust, to a S&L in

2013). Strong growth among S&Ls generally led them to surpass RCBs, with the largest loan portfolio in the sector in 2013.



Source: FinMark Trust (2010), cited in GHAMFIN (2013), Figure 2.2 (see Bibliography). Surveys were undertaken in 2008-2010 (except for Namibia in 2007). A 2013 survey in Uganda shows a major reduction in the rate of financial exclusion when use of mobile money is included. World Bank Findex data for Ghana in 2014 indicate that adding mobile money accounts would reduce financial exclusion by about 7 percentage points.

9. Growth in outreach during the 2000s was led by introduction of microfinance as an important product in RCBs, giving Ghana a high percentage of the population that is “banked” (34 per cent) relative to other Sub-Saharan African countries outside southern Africa (Figure 3). However, the substantially greater use of informal finance in Uganda and Kenya for example gives them lower rates of financial exclusion (30 and 33 per cent, respectively) than Ghana (44 per cent). East African countries have also seen a greater reduction in financial exclusion than Ghana in the last three years through the use of Mobile Money. One difference between Ghana and East Africa is that mobile money has emerged as a stronger driver of financial inclusion in the latter⁸.

10. RCBs remain the main player in terms of outreach. The composition of MFIs by subsector in 2013 is shown in Table 1. With over 600 total outlets (including branches and agencies), RCBs represent the largest share of the industry, with 50 percent of deposits and 59 percent of clients, although growth in numbers and size of S&Ls in recent years has propelled them into first place in terms of lending (48 percent).⁹ Although MFCs had nearly as many clients as credit unions in 2012, they fell to about half in 2013 and remain considerably smaller in terms of savings and loan portfolios. Thus the risks they pose have to do with the volatility and potential

⁸ The latest FinScope survey in Uganda indicates that financial exclusion has been reduced by half when use of mobile money is included (EPRC, 2013).

⁹ This does not include Sinapi Aba Trust, a large FNGO that transformed into a licensed S&L in 2013.

spillover of reputational risks and reduced consumer confidence that they have introduced, rather than a significant systemic risk.

Table 1: Ghana's Microfinance Industry as of Dec. 2013

Type of Institution	Number of:			Portfolio: GHS mil (share: %)		Share of Total Clients* (%)
	Institutions Reporting	Depositors (‘000)	Borrowers (‘000)	Deposits	Loans	
Rural and Community Banks	133	4,767	990	1,315 (50.2%)	734 (35.0%)	59%
Savings & Loans Companies	21	2,247	393	824 (31.5%)	994 (47.5%)	28%
Credit Unions	444	490	146	463 (17.7%)	281 (13.4%)	6%
Microfinance Companies	540	242	110	9 (0.4%)	50 (2.4%)	3%
FNGOs*	18	N/A	162	N/A	36 (1.7%)	2%
Susu Collectors*	472	165	N/A	7 (0.3%)	N/A	2%
Total, regulated (except Money Lenders)	1,628	7,913	1,801	2,619 (100%)	2,095 (100%)	100%
VSLAs (2014) (additional)	8,271 groups	244		12.5 (0.5%)		3%

*Total clients include borrowers for FNGOs and depositors for all others. Data on Money Lenders are not available for 2013. NGOs engaged in microfinance are considered to be “FNGOs” if they are specialized in microfinance or keep their microfinance operations separate from other activities. *Susu* collectors make daily collections of an amount set by each client, and return the accumulated amount at the end of the month, minus one day’s amount as commission, thus providing a monthly lump sum (especially useful as working capital for traders). “Susu” is also used to refer to other informal methodologies involving savings, such as rotating savings and credit associations (ROSCAs). In addition, there are many other informal self-managed savings and credit groups for which aggregate data are not available. Preliminary estimate for village savings and loans associations (VSLAs, a model promoted by a number of NGOs) are shown, but these data are not tracked systematically. Micro and small enterprises (MSEs) also make substantial use of trade credit, loans or gifts from relatives and friends, and money lenders. (Subsector data for 2014 are still being finalized.)

Source: GHAMFIN. Details may fail to add to totals because of rounding.

III. Challenges of Implementing the Microfinance Regulations

11. BoG issued Guidelines for Microfinance Institutions (MFIs) in 2011 as a response to the proliferation of businesses taking savings and making loans that were registered as companies but not licensed as financial institutions. In addition to RCBs and S&Ls, which were already licensed, the new regulations cover all categories of microfinance providers, including new categories of “Microfinance Companies” (MFCs) and “Money Lenders” (both companies and individuals), as well as the pre-existing CUs, FNGOs, susu collectors, and others. The Guidelines specify business form, capital, permissible activities and prudential or reporting

requirements (see Annex I, summarized below and in Table 2). The Guidelines were based on a 2010 study (CDC Consult, 2010) commissioned by GHAMFIN, and set forth four tiers of MFIs (the first tier being those already subjected to BoG licensing and supervision):

- **Tier 1: Deposit-taking MFIs** licensed and supervised by BoG: RCBs and S&Ls.
- **Tier 2: Deposit-taking MFIs:**
 - ✓ Microfinance Companies (MFCs) supervised directly by BoG; and
 - ✓ Credit Unions - currently regulated by Ghana Cooperative Credit Unions Association and to be regulated separately under a new Legislative Instrument that envisages supervision through an independent Board under BoG.¹⁰
- **Tier 3: Non-Deposit-taking MFIs: Incorporated Money Lenders and FNGOs** – i.e., those MFIs not mobilizing deposits from the public (though in practice, they do take customer funds as collateral for lending or by offering interest on “investments,” much like Finance Houses); in principle supervised by BoG; in practice, associations are being asked to take the lead in monitoring and reporting on their subsectors.
- **Tier 4: Others, specifically, individual *Susu* Collectors (who only take daily savings) and Money Lenders** (who only make loans). These do not intermediate funds and are not supervised directly by BoG, but are expected to join and report to their respective associations, which “shall collect and collate statistics on the operations of their members and furnish this to BoG periodically as may be determined.”

12. This tiered structure represents a reasonable classification and prioritization of different types of institutions in terms of both size and risk to financial stability (which is higher when savings are mobilized from the public and lower for membership-based groups with a clear governance structure). It is consistent with structures in other countries that have adopted special legislation for licensing MFIs. However, the challenge lies in implementing a new structure imposed on an existing situation of hundreds of entities of various types already engaged in microfinance activities, and enforcing the system to restrict new entry.

Implementation

13. BoG was overwhelmed with over 700 applications for licensing during 2012, mainly from MFCs (but still less than the total number in existence) and to a lesser extent from Money Lenders. Applications from FNGOs lagged, as many were not sure whether to remain as FNGOs or to re-register as companies limited by shares so that they could become MFCs or S&Ls in order to be able to mobilize savings, while others were too small and localized to be affected. Obtaining the data normally used to make a licensing decision proved cumbersome, as most MFCs and FNGOs did not have computerized management information systems (MIS) capable of producing the necessary reports and few had audited financial statements. BoG’s approach was to be flexible in issuing provisional licenses to bring the maximum number of

¹⁰ Although credit unions have in principle been subject to BoG regulation since the first Non-Bank Financial Institutions (NBFI) Act in 1993, in practice BoG has exercised “regulatory forbearance” and left the supervision to the Ghana Cooperative Credit Unions Association (CUA), through its audit service, in collaboration with the Department of Cooperatives, which is the registering authority.

existing operations into the system, and then try to improve reporting and regularize them. BoG issued about 140 licenses in 2012, accelerating during 2013 to a cumulative total of 508 licenses for Tiers 2 and 3 (except CUs) by the end of 2014 and 579 as of December 2015 (see Table 2 for details). While a number of those licensed proved unable to meet reporting and (subsequently increased) minimum capital requirements, BoG was able to gradually sort out those that had applied but had difficulty meeting the criteria, rather than driving them underground. Tier 4 individual Susu Collectors and Money Lenders were registered through their associations (see next section), while Credit Unions continued to be left to supervision by their association, pending a Legislative Instrument that would formalize a supervisory structure through an independent Board under BoG appropriate to their nature as cooperatives.

Table 2: Status of Regulation and Supervision and Associations by Tiers and Subsector as of Dec. 2015

Tier	Type of Institution	Association & Total Membership	Number Fully Licensed*	(Old) & New Minimum Capital (GHS)	Comments
Tier 1	Savings & Loans Companies	GHASALC 22	22	(7 million) 15 million	Licensed and supervised by BoG; currently regulated by BoG under the Banking Act
	Rural and Community Banks	ARB/ ARB Apex Bank 139	138	(150,000) 300,000**	
Tier 2	Credit Unions	CUA 538 [2014]	444 [2014]	Not Applicable	Require license from Department of Cooperatives and membership in CUA. Supervised by CUA. To be further regulated under a new Legislative Instrument
	Microfinance Companies	GAMC 638	496	(100,000) 500,000**	Licensed and currently regulated and supervised by BoG under the Non-Bank Financial Institutions Act
Tier 3	Financial NGOs	ASSFIN 42	11	(60,000) 300,000**	
	Money Lender Companies	MLAG 135	72	(60,000) 300,000**	Require license from BoG and membership in MLAG. Can open branches with BoG approval
Tier 4	Individual Susu Collectors,	GCSCA 472 [2014]	317 registered [2014]	Not Applicable	Require registration with BoG and GCSCA but do not require minimum capital or supervision; monitored by GCSCA
	Individual Money Lenders	MLAG 250	89 registered	Not Applicable	No minimum capital or supervision requirement; cannot open branches. Require license from BoG and registration with MLAG, which monitors them

* Only 22 provisional licenses remain outstanding as of December 2015: 19 MFCs, 1 FNGO and 2 Money Lenders.

** Minimum capital is being raised further to GHS 1 million for RCBs (to comply by January 2018); to GHS 2 million for Tier 2 by June 2018 (GHS 0.5 million by June 2016); and GHS 2 million for Tier 3 by December 2018 (GHS 0.3

million by December 2016). New applicants will have to meet the full new minimum capital requirement (Krampah and Ashiadey, 2015). Minimum capital for commercial banks is GHS 120 million. The cedi was approximately equivalent to one US dollar in 2007; it had depreciated to GHS 3.8/USD by the end of 2015.

Source: GHAMFIN (2014 and internal data). See next section and Annex II for names of associations.

14. The slow process and difficulties of meeting licensing criteria took a toll on the newly-regulated subsectors of MFIs. The MFC subsector in particular suffered a loss of deposits in 2013, due to public uncertainties and publicity surrounding collapses of those that could not comply. As of April 2014, 128 applications had been denied – mostly because they failed to follow through and provide the required documentation (some may have exited). BoG investigated some 48 pending applications to see if they could be assisted to complete the licensing process. To discourage new applications after giving those in existence the opportunity to apply with low minimum capital requirements, in 2013 BoG increased the minimum capital requirement fivefold from GHS100,000 to 500,000 for Tier 2 and from GHS60,000 to 300,000 for Tier 3. This was intended to encourage mergers, as well as to limit future applications and to ensure a greater cushion of capital to underpin operation.¹¹ Although the increase was not applied immediately to applications already in the pipeline, some MFCs that were not yet licensed (or had not yet applied) became discouraged and dropped out – meaning both that their borrowers were unlikely to repay and that their depositors may not be able to recover their savings. A further round of increases in the minimum capital requirement was announced in July 2015, to be phased in over 2-3 years (see footnote to Table 2).

15. The inevitable short-run consequence of regulation has been to accelerate the rate of closures and collapse of MFCs; this process continued through 2015, and represents a necessary process in order to establish a leaner, more orderly and well-regulated industry. The process has been complicated because BoG does not have the legal authority to actually close down a business (which would require a court order and police action), only to deny an operating license. Instead, BoG published a list of some 130 MFIs (almost all of them MFCs) that it has identified as still operating without a license, in order to warn the public from doing business with unregulated MFIs, and it has de-licensed 70 others that are not in compliance.¹² It also has initiated some measures to work with the MFI associations and engage in public relations to improve implementation and information about the exercise.¹³ The long-run success of the regulation effort will depend in part on whether public confidence in “microfinance” can be restored. One positive sign is that deposits in MFCs began recovering in 2014 after the decline in 2013. Publicity about collapsing MFIs appears to have subsided somewhat in the latter part of 2015, with a shift toward court cases and political efforts by depositors (often attracted by ‘investments’ offering as much as 10-20 percent per month interest) to recover funds from closed institutions. Nevertheless, adverse publicity over a major case of loss of funds and BoG’s

¹¹ Few mergers have occurred. Rather, some struggling but licensed MFCs have been bought by new investors as a way of circumventing the higher capital requirement for new applications.

¹² Bank of Ghana (BoG), ‘Notice to Banks, Non-Bank Financial Institutions and the General Public: Unlicensed Microfinance Institutions,’ Accra: BoG Notice No. BG/GOV/SEC/2015/04, 2015; Lokko, Vivian Kai, ‘Bank of Ghana revokes licenses of 70 microfinance companies,’ Citifmonline, 5 January, 2016.

¹³ For example, an appearance on Joy-FM on April 30, 2014 and periodic public statements that are reported in the press.

intervention has prompted it to initiate a public awareness campaign on MFI licensing.¹⁴ While this may be a feasible response in the short term, it must be complemented by a strategy for the full enforcement of the MFI regulatory framework.

The Role of MFI Associations

16. To implement the regulations, in 2011 and 2012 BoG worked closely with MFI Associations to sensitize those MFIs and clients most affected and facilitate this process. It relied heavily on the newly-formed Ghana Association of Microfinance Companies (GAMC) and Money Lenders Association of Ghana (MLAG), as well as the pre-existing Ghana Cooperative Susu Collectors Association (GCSCA), Association of Financial NGOs (ASSFIN), and Ghana Association of Microfinance Institutions (GHAMFIN). The subsector associations have emerged over the last 47 years along with gradual diversification of financial institutions in Ghana. CUA, ARB and GCSCA were established over 1968-94 by their members to advocate and serve their respective (quite different) types of institutions (see Annex II). Originally a network of MFIs in the late 1990s, GHAMFIN's governance structure was reorganized in 2008 so that the subsector associations are represented on its Board, making it the umbrella body for the sector. ARB Apex Bank, ASSFIN and GHASALC were established during the 2000s, with some donor support, for specific purposes, including restructuring of GHAMFIN's governance to more clearly represent the different subsectors. MLAG and GAMC were formed by their members in 2010-11 to help negotiate the impending imposition of regulations by BoG. It should be noted that none of these organizations have any formal delegated supervisory or enforcement powers, with the exception of new arrangements being introduced for credit unions (see section on credit unions).

17. These subsector associations and GHAMFIN have been nurtured by Government and donor programs and BoG to play an important role in sensitization, training, data collection, reporting and monitoring of the microfinance subsectors and industry. The Rural and Agricultural Finance Programme (RAFiP)¹⁵ and GIZ/RF had already been supporting the Ghana Microfinance Institutions Network (GHAMFIN) and its constituent subsector MFI associations,¹⁶ especially to develop their capacities for monitoring and organizing training for members as well as financial literacy activities. RAFiP extended this support to GAMC and, in 2014, to MLAG to assist in their capacity-building efforts. Further details on the formation,

¹⁴ Djabanor, Fred, 'Microfinance scandal: DKM boss, others granted bail,' Citifmonline, 25 January, 2016; Shaibu, Farida, 'Disgruntled microfinance customers to petition President,' Citifmonline, 12 January, 2016. In discussing an on-going court case concerning a MFC against which BoG took action, President Mahama mistakenly said that MFCs are not allowed to take deposits, which had to be corrected by the Ghana Association of Microfinance Companies (Acquah-Hayford, 2016).

¹⁵ RAFiP is a US\$42 million sector-wide program funded directly by GoG (US\$2.7 million), International Fund for Agricultural Development (IFAD; US\$15 million loan), the Italian Government (US\$1.5 million grant), and beneficiaries (US\$9.5 million). Additional parallel support was received from Danida's Support to Private Sector Development (SPSD II; US\$8 million) and the World Bank-funded Economic Management Capacity Building (EMCB) project. GIZ's Responsible Finance program has also funded financial literacy activities that are included under RAFiP. RAFiP was designed in 2008 but did not become effective until 2010, as a result of delay in Parliamentary approval due to the change in government. It ends in 2016.

¹⁶ Ghana Association of Savings and Loan Companies (GHASALC), CUA, ASSFIN and GCSCA, with GAMC and MLAG added in 2013 and 2014, respectively. The Association of Rural Banks (ARB) is not being supported directly, as RAFiP has been extending support to the ARB Apex Bank.

membership, activities, roles and challenges of the different associations are shown in Annex II (see also Table 1).

18. The regulations did not affect the RCBs and S&Ls, which were already being licensed and supervised by BoG. Although their respective associations do not play a role in regulation, the ARB Apex Bank, which is owned by the RCBs and has a restricted commercial banking license, serves as a ‘mini central bank’ for the RCBs, providing treasury functions and other financial services, offering training, monitoring their performance, and undertaking inspection of a limited number of RCBs. The RCBs are required to place 5 percent of their deposits with the ARB Apex Bank as part of their primary reserves (the other 6 percent of primary reserves goes to BoG), which the Apex Bank can invest in Treasury Bills to earn income to support its operations. Like a central bank, the Apex Bank can also receive surplus funds from its member banks and lend to those in deficit, paying and receiving interest, respectively. ARB Apex Bank does not have licensing or sanctioning authority; its inspection service only complements BoG’s role as the primary supervisory authority.

19. The Ghana Cooperative Credit Unions Association (CUA) de facto plays a somewhat similar central role with respect to CUs. Besides overseeing the process of formation of Credit Unions and providing training, it undertakes an annual audit of all its members (for which it charges them). Since BoG has never exercised its authority (under the NBF Act) to license and supervise CUs, the legal authority remains with the Department of Cooperatives (in the Ministry of Employment and Social Welfare), which has neither the capacity nor the budget to carry out formal supervision by itself. Hence it cooperates with CUA in undertaking audits, which it certifies as satisfying the legal audit requirement for cooperatives. With the agreement of all key stakeholders, a new Legislative Instrument has been enacted to establish a supervisory board under BoG to oversee this process (with representation of key stakeholders) and thereby institutionalize within Tier 2 of the Guidelines a system that has been working well. Like many associations of credit unions and savings and credit cooperatives worldwide, CUA also maintains a Central Finance Facility, which both receives funds from and lends them to members at interest rates that it sets.

20. The Guidelines explicitly assign roles to subsector associations for Tier 4. The Guidelines state that: *operators shall belong to an umbrella association such as GCSCA...as a platform for educating and informing each other as well as a forum for interacting with regulators and other stakeholders....Umbrella associations of Tier 4 institutions shall collect and collate statistics on the operations of their members and furnish this to the Bank of Ghana periodically as may be determined* (Annex I). In addition, GCSCA and MLAG are also expected to screen applicants for membership, and to report cases of non-compliance to BoG.

21. BOG has relied heavily on the MFI associations to help inform MFIs about the regulations and application process, train them in requirements and reporting, and facilitate the reporting process. BoG began providing direct support (vehicles and computers) to three of them in March 2014¹⁷ and has continued to offer some budgetary support. MLAG and GAMC were formed by their members in 2010-11 to help negotiate the impending imposition of regulations by BoG. BoG’s support is intended to help those associations to play a facilitating role

¹⁷ Agyeman, Nana Konadu. 2014. ‘BoG support micro finance associations.’ Accra: Daily Graphic, March 15, 2014.

in obtaining reports and data from the MFIs in Tiers 2 and 3 that BoG supervises directly. Many of the MFCs had little knowledge about financial operations, and many of those that have been licensed (in order to bring all existing MFIs under the regulatory regime) have had difficulty complying with BoG's requirements for reporting their financial performance, capital, deposits, lending, profit and loss, and other data.¹⁸ This is due to a combination of the complexity of the required reports, the weak financial accounting and management information systems (MIS) of many MFIs, and reluctance to share financial data. The “prudential reports...of varying periodicity as may be determined by the Bank of Ghana” (Annex I) were initially similar to those required of S&Ls, but BoG has now adapted them to the more limited operations and capabilities of most MFIs (with support from GIZ/RF).

22. However, at present, most of the MFI associations have limited capacity to absorb the costs of performing their expected increased role in data collection, monitoring and self-regulatory functions (see also further discussion under Section 4 Risk Analysis). Few of these services are able to generate revenues sufficient to cover costs. While many of these functions represent “public goods” that help maintain financial stability, with the ending of RAFiP subsidies in June 2016, it is clear that some of the associations will not be able to survive in their present form. BoG is offering limited support to a few MFI associations, and future donor support appears likely to be limited to occasional training programs. GHAMFIN has already initiated discussion among its members on ways in which activities might be consolidated and streamlined in the future. Overall, institutional assessment of MFI associations and subsequent reform and/or consolidation is required to put them on the path of effectiveness and sustainability. This type of review should ideally precede and inform a decision for committing additional public financial resources to this end.

Consequences

23. Licensing requirements aimed at stabilizing the sector in the medium term by winnowing out insolvent and weak MFIs have already facilitated exit of weaker institutions, which is an inevitable part of the transition to a more robust, professionalized MFI industry. This was achieved by imposition of licensing requirements, subsequent increases in minimum capital, delicensing of uncompleted applications and non-compliant MFIs, plus the substantial withdrawal of clientele and deposits in 2013. Of the initial more than 700 applications, 128 were denied, and about 70 of those provisionally licensed never achieved full licenses, implying closure. In 2015, BoG published a list of some 130 MFIs operating illegally without having obtained a license, and revoked licenses of 70 in 2016. This implies closures (actual or mandated) on the order of 100 a year since 2012. Growing publicity about the “collapse of microfinance companies” had adverse consequences in terms of loss of people's savings and of public confidence in “microfinance” – with possible spillover to well-established categories of MFIs, and even to the financial system generally.¹⁹

¹⁸ The Guidelines also impose some specific prudential guidelines for Tier 2 on the relative size of deposits (“no single deposit shall exceed 5% of the Company's paid up capital”) and ceilings for Tiers 2 and 3 on individual loans as a percentage of net worth or capital.

¹⁹ Syme, Sebastian, ‘Clients lose money after collapse of 30 microfinance institutions,’ Accra: *Daily Graphic*, August 13, 2013; Owusu-Nuamah, Patrick, ‘Collapse of microfinance companies: Companies shot themselves in the foot,’ *Ghanaweb*, February 14, 2014.

24. The strategy of the BoG to license the full range of microfinance service providers all at once - in response to the growing number of public complaints about losing savings in businesses taking and intermediating savings from the public - has faced a number of challenges in the short term. First, the process taxed the capacities of both BoG to implement its regulations and MFIs to comply. There was no advance training of the BoG staff in microfinance to be able to understand the wide difference in the nature of the MFIs they were to license and regulate from the universal banks, S&Ls and RCBs that they had been regulating. The number of staff assigned (initially 8, increased to 21 by the end of 2014 and further in 2015) was not adequate to cope with the over 700 applications initially received, nor with the need for on-site visits. Since most of the MFCs were established as businesses specifically to avoid licensing as financial institutions, they were ill-prepared to meet BoG licensing and reporting requirements. BoG's intervention in response to challenges in the sector was long overdue; however, it would have been easier to implement and more effective if done earlier (before the proliferation of MFCs got out of hand) or perhaps in phases, and with better planning and capacity building on both the sides of BoG and the MFIs.²⁰ Earlier introduction of framework for licensing would also have forestalled the Registrar-General from registering and issuing certificates to commence operations to companies with "microfinance," "susu" or "financial services" in their names.

25. Second, licensing entails a reputational risk for the BoG, and raises the issue of the fiduciary responsibility to guarantee the savings of poor people in these institutions. Once a license is issued, however, BoG is perceived by the public to bear an implicit responsibility for savings that are lost if the institution collapses (even though there is no legal liability). BoG realized that it is not adequate to require annual renewal of licenses, since the public has no way to know that a license has not been renewed. For greater transparency, it began issuing permanent licenses and revoking provisional licenses in the event of non-compliance. A deposit protection bill is currently before Parliament; in principle, it would cover all deposit-taking financial institutions that are licensed and supervised by BoG and that meet qualification criteria, though these have yet to be determined. In practice, greater clarity is needed on the proposed coverage of deposit-taking MFIs, and it is not entirely clear to what extent and how some of the MFIs that take deposits (as defined by BoG) from the public would be phased in, given the wide range in their performance and capabilities.

26. Third, BoG has limited legal authority to take direct action. It can restrict operations of licensed MFIs, publicize those operating without a license, and warn the public, but enforcement requires court and police actions. Indeed the High Court has ruled that BoG has no authority over an investment club that mobilizes savings from members,²¹ making it difficult to for BoG to act against "fan clubs" and other member-based groups that may be engaging in unsustainable financial activities. It would be necessary to prove in court that they are fraudulently mobilizing funds from the general public. In this regard, BoG should explore ways to strengthen its regulatory enforcement capacity, given that it is responsible for the stability and development of financial sector.

²⁰ In Uganda during the early 2000s, there were five government and donor-supported projects with financial and technical support for implementation of the Microfinance Deposit-taking Institutions Act.

²¹ Ghana News Agency, "Fun Club to demonstrate against the Central Bank," 30 September, 2015.

27. Finally, it appears that exit from the sector has initially been accelerated, aggravating the atmosphere of crisis without clear public perception that stability is being increased over time. Ironically, this is because weak MFCs²² that might have been able to survive have been given a clear signal that they cannot meet the minimum capital or other requirements for a license. However, orderly exit is very challenging for MFIs, because as soon as they stop lending, people want to withdraw their savings, creating a run and immediate collapse. This is an expected necessary step, so that in the long run only those MFIs remain that can be safely entrusted to secure savings of poor people. But it has had negative consequences in the near term for public perception of the safety of the financial system, with a sharp drop in clientele and deposits in MFCs in 2013. On the positive side, average deposits in MFCs had recovered by 70 percent in December 2014 over December 2013. And disgruntled customers are increasingly going to court to try to recover their deposits or “investments”²³ in collapsed institutions. The next section analyzes the risks arising in the current situation, by the key subsectors and actors involved.

IV. Risk Analysis

28. Overall, Ghana has an institutional and regulatory framework for access to financial services through a wide range of institutions and products, spread reasonably well across the country. BoG, the MFIs and their associations are constantly trying to improve their ability to implement and comply with the regulations in such a way as to reduce the rate of collapse, improve oversight and reporting, and give the public greater confidence in MFIs. But further improvements in implementation and public perceptions of the industry are needed.

29. Many MFIs have limited capacity to comply with regulatory and reporting requirements, and their respective associations have limited capacities to play their expected role in information dissemination, data collection, monitoring, reporting, and building capacity on the supply side. At the same time, low financial capability of microfinance borrowers and still insufficient financial consumer protection arrangements are increasingly being recognized as constraints to successful expansion of the responsible financial services.

Bank of Ghana

30. BoG has steadily built up its capacity to deal with the substantial challenges of effectively supervising the MFIs that it has licensed, as well as coping with new licenses and delicensing dormant or non-compliant MFIs. The licensed MFCs have struggled to submit prudential returns, making off-site supervision especially difficult. This is partly due to low capacity and non-computerized MIS systems in many MFCs, but also to the initial limited capacity of BoG and its unrealistic expectations about the information they could provide. The Microfinance Unit in the Banking Supervision Department of BoG initially had only 8 staff to deal with over 400 licensed MFIs. By 2015, after the Unit has been upgraded to a full department

²² This does not apply to FNGOs and Money Lenders, which do not take voluntary savings from the public – although some of the latter have mobilized fixed-term “investments,” as well as obtaining lines of credit from other financial institutions.

²³ See para 11 (reference to Tier 3 Institutions)

(Other Financial Institutions Supervision Department), this had increased to 21 staff specifically assigned to undertake both on-site and off-site supervision of 508 licensed MFIs, as well as assessing the 48 pending applications and any new ones, plus investigating unlicensed ones that have not applied.²⁴ This is apart from 7 staff who exclusively handle evaluation of applications.

31. With increased staff, BoG is now able to focus more on supervising those that have been licensed and identifying those still operating that have not applied. The rate of new applications has slowed down to about one per month since 2014, when the new department was established and review of applications became stricter. As the initial licenses came up for renewal, BoG required them to submit the mandated reports in order to receive their permanent license. At the same time (with support from GIZ/RF) BoG has developed new, simpler templates for reporting by MFIs. This has helped to improve the responsiveness in reporting, as well as leading to identification of some that may not be functioning well enough to survive. During 2014, BoG requested all licensed MFIs to send Directors for training (with financial support from RAFiP) on corporate governance, assets and liabilities management, and licensing and supervision issues. Early in 2015, BoG published a list of 128 unlicensed MFIs to better inform the public as to which MFIs to avoid in placing their funds. The “sorting-out” process is continuing into 2016, but appears to be gradually stabilizing the sector in terms of limiting new entrants while cleaning out insolvent MFIs. Some of the MFIs have been taken to court, but the tendency of the public to blame BoG (as the messenger) for the loss of their funds rather than the unlicensed businesses themselves means that the risk continues of negative public perception of the microfinance and banking sector.²⁵

32. At present, the courts are the only mechanism for dealing with issues arising from the collapse of MFIs. Although the public often perceives BoG as the cause of their loss of funds when it intervenes, BoG’s legal authority extends only to freezing the operations of insolvent financial institutions and publicizing those that are not properly licensed. Deposits are not insured (although legislation is in the works to initiate deposit protection in some financial institutions), and in any case many of the MFCs and Money Lenders have mobilized funds as ‘investments’²⁶ (often with exceptionally high promised returns) rather than as deposits per se. The courts are the appropriate means for obtaining orders to liquidate a business and use the proceeds to pay creditors, depositors and investors. However, the courts are not a realistic option for the many small depositors, who simply lose their funds. Now that BoG has essentially clarified the register of licensed and unlicensed MFIs, it could launch an effort to better inform the public about the objectives and processes involved in regulating the sector.²⁷

²⁴ These staff have had to learn on the job, as they were not among those trained in microfinance under the Rural Financial Services Project. The Other Financial Services Inspection Department (of which the Microfinance Unit is part) as a whole has been increased from 51 to 72 total staff (who also supervise RCBs and 392 Forex Bureaus). However, the need to train staff with respect to microfinance means that it will be some time before the Unit will be able to operate at full speed. The Microfinance Unit can occasionally draw on staff working in other units of the Department (e.g., on RCBs).

²⁵ An April 2014 radio program on “The Truth about Microfinance” noted that “many point accusing fingers at the Bank of Ghana” (Peprah, Kwaku Owusu, “The Truth about Microfinance,” Accra: Super Morning Show: Hotline April 17, 2014; *Modern Ghana*).

²⁶ See para 11 (reference to Tier 3 Institutions)

²⁷ However, given that the collapse of MFIs has become somewhat of a political issue that some blame on BoG or the Government, a public relations campaign is unlikely to be initiated in an election year.

Microfinance Companies (MFCs) and Money Lenders

33. While BoG moved in 2015 to revoke licenses of collapsed and non-compliant MFCs and Money Lenders and to inform the public about those operating with licenses, many MFCs will continue to face challenges in complying with reporting and increased minimum capital requirements. Although the licensing situation has stabilized, the risk remains that a number of MFCs will continue to close or collapse during 2016. It remains to be seen to what extent BoG will be able to facilitate mergers of MFCs to meet minimum capital requirements, close down those that fall short, and allow new investors to take over weak MFCs to short-cut the process of licensing new ones.

34. Poor financial management is a risk factor for many MFCs. For example, the drop in deposits in 2013 and strong competition among MFCs drove many of them to offer incentives such as a half piece of cloth or a bag of cement for opening a fixed deposit account of GHS100,²⁸ and BoG reports that many do not realize that they are paying an implicit interest rate on savings of as much as 80 per cent. Although some efforts have been made to train managers and staff in microfinance principles and practices, high staff turnover means that such training must be repeated to be fully effective; but MFCs that are liquidity-constrained are increasingly resistant to bearing even part of the cost of such training.²⁹ At the beginning of 2014, only a third of licensed MFCs had submitted the required returns, in part because of inadequate training and MIS systems. The number reporting rose steadily during 2014, reaching 381 (three-quarters of those licensed) by early 2015. Financial management is less of an issue for Money Lenders that use their own funds, but BoG has had to move against some that have improperly been taking deposits or “investments”³⁰ as a source of loan funds.

35. Governance is also an issue for some MFCs. While BoG is requiring them to diversify their shareholding and have “fit and proper” persons on their Boards of Directors consistent with normal practice for financial institutions, it is aware that many of the Directors are on paper only, and not actually active in oversight. The question over the longer term is whether a culture of “getting away with it” can be replaced by a better understanding by MFC owners of the value of good governance, financial management, and building of staff capacity.

36. Many MFCs have not developed capacity to comply with reporting requirements, citing high cost of MIS systems and training; however, the cited high cost of required MIS systems (computerization and licensing software) for licensed MFIs and possible lack of understanding of the benefits does not justify non-compliance with essential reporting requirements. BoG should, therefore, assess and compare the on-going costs of implementing and complying with the Guidelines for MFIs, on the one hand, with the risks of non-compliance in times of increased failures of MFIs, on the other. Based on this assessment, a regulatory decision could be taken to adjust the regulations, to introduce incentives such as monetary penalties, or to fully enforce them (which may result in exit of noncomplying MFIs). This decision could be taken in the context of preparation of a regulatory strategy for the MFI sector.

²⁸ Owusu-Nuamah, Patrick, ‘Collapse of microfinance companies: Companies shot themselves in the foot,’ *Ghanaweb*, February 14, 2014.

²⁹ Under the RAFIP Capacity Building Fund, MFCs are expected to pay 30 percent of the cost; FNGOs 20 per cent.

³⁰ See para 11 (reference to Tier 3 Institutions)

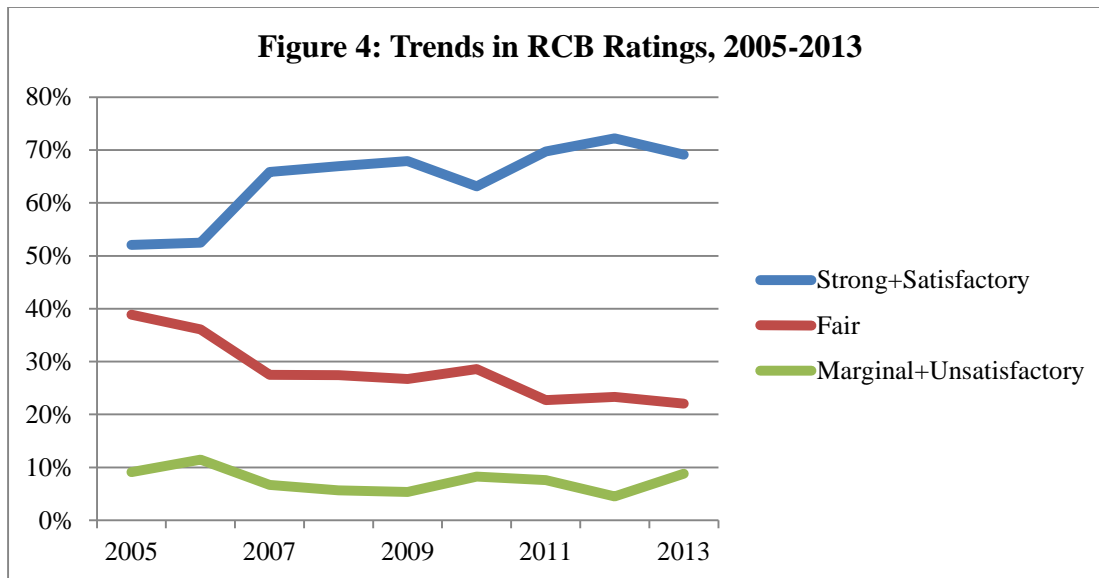
Savings and Loans Companies (S&Ls)

37. Some consolidation among S&Ls is expected as a result of increasing minimum capital requirements (from GHS7 to 15 million). The potential spillover of publicity about frequent MFC closures to public perceptions of other financial institutions may have been evident in the problems in April/May, 2014, of Ezi Savings and Loans Company, which required “a bailout from its majority shareholder to ease the liquidity problems... [caused by a] rush for deposits by clients as a panic withdrawal triggered by rumors that the institution was facing an imminent shutdown -- a situation that is very familiar in the microfinance sector of the country.”³¹ S&Ls face strong competition from MFCs, which serve the same markets, particularly micro and small enterprises in urban and peri-urban areas. The proliferation of licensed S&Ls from 8 in 2001 to 25 in 2014 may have exceeded the growth of the market, in the face of such competition. Although the total clientele of the S&L subsector has kept pace, it is highly concentrated in just a few; the top two are estimated to have around a third of the S&L savings and loan portfolios, and the top six about 70 percent (based on GHAMFIN estimates for 2013). They also are highly leveraged, with ten of them having loan portfolios that exceed the savings they have mobilized, of which four have portfolio at risk (over 30 days) exceeding 5 percent, putting savings at risk in case of growing loan defaults. The substantial number (as many as half) of S&Ls that are undercapitalized or weak means that consolidation through mergers and takeovers are needed improve the situation, such as the 2014 purchase of ProCredit Ghana S&L by Fidelity Bank. GHASALC needs to consult with members on minimum capital and consolidation and work with BoG to develop a strategy going forward.

Rural and Community Banks

38. Collapse of RCBs has not been much of a problem, although a substantial number are constrained by limited capital and liquidity. After BoG closed 23 distressed RCBs in 1999, leaving 111, there have been few closures and a net gain of 27. Capacity-building of RCBs has supported a modest trend toward improvement in the share rated as “strong” or “satisfactory” by ARB Apex Bank’s Efficiency Monitoring Unit from 52 percent in 2005-2006 to 70 percent in 2011-2013.

³¹ Abbey, Richard Annerquaye, “Ezi Savings and Loans to receive bailout,” *Business & Financial Times online*, May 13, 2014.



Source: ARB Apex Bank Efficiency Monitoring Unit.

39. Although only six RCBs fall below the previous minimum capital requirement of GHS150,000 there is some reason for concern as to whether most of the RCBs rated “marginal” or “weak” will be able to achieve the new minimum capital requirement (GHS300,000) and to remain competitive with expanding universal banks, S&Ls and MFCs, let alone to reach the eventual minimum capital of GHS1 million to be required of new RCBs. The BoG has rarely, if ever, sanctioned an existing RCB for inadequate capital. The few closures over the last 15 years have been because of insolvency, rather than capital per se.

40. Rising inflation is likely to exacerbate undercapitalization of the smaller, weaker RCBs and further reduce their ability to provide credit in poorer rural areas. While many RCBs could mobilize external capital, and there are funds and investors ready to buy shares in RCBs, such capitalization is constrained in many RCBs by: (i) resistance by Boards, local authorities and members to dilute their control through substantial external shareholding; and (ii) inadequate share registers. Until 2008, voting in RCBs was on the basis of one-member-one-vote; i.e., the number of shares owned by an individual did not matter, except for payment of dividends (which few RCBs were doing). Many RCBs relied on members to demonstrate how many shares they owned, rather than keeping a consolidated share register. The lack of data on share ownership is a problem for seeking new capital, especially since BoG changed the regulations so that voting is proportional to shares owned.³² Only 31 out of 81 undercapitalized RCBs surveyed in 2014 had share registers that were at least 95 percent accurate.³³

41. Supervision of RCBs has improved, but remains costly. BoG’s Supervision Department had previously complained that it had to devote about 60 percent of its supervision resources to the RCBs, which account for only about 5 percent of the assets of the banking sector. They struggle to make even one on-site visit to each RCB each year, as required by law. For this

³² ARB Apex Bank reports that some RCBs are being taken to court over this matter.

³³ Pelrine, Richard John, and Bubune, Tornye Benedict, ‘Research Brief—Capitalization Issues and Preferences among Ghana’s Under Capitalized RCBs.’ Accra: Report to ARB Apex Bank, 2014, p. 2.

reason, the ARB Apex Bank has been encouraged to play a larger role through its Inspection Department, but the limited number of staff are presently able to audit no more than about 25-30 RCBs a year. They target the weaker RCBs both for closer monitoring and for capacity-building to ease the task of BoG, which has the final responsibility for supervision. Budget is a major obstacle to expanding this function, since the Government and BoG are not providing any subsidies and the RCBs cannot be expected to pay for supervision when commercial banks do not. Nevertheless, the situation with respect to reporting by RCBs has improved over time, with ARB Apex Bank establishing its own data center and with computerization of the RCBs greatly expanded under the US-funded Millennium Challenge Account. Consolidation of RCBs would be a desirable, if unlikely means of reducing the cost burdens both on inspectors and on maintaining connectivity and computers in over 600 RCB outlets.

42. It appears likely that the 138 RCBs will continue to operate at three broad levels:

- A top tier of about 20-30 RCBs that are well-managed, efficient and able to continue competing with commercial financial institutions (about 20 RCBs have consistently featured in the “Club of 100” top businesses in Ghana, as rated by the Ghana Investment Promotion Centre; GIPC 2014, Graphic 2013);
- The 60-70 RCBs in the middle, which operate with reasonable profitability and efficiency and often play an important role in serving their community, especially in smaller towns with few if any universal banks; some of these have the potential to grow, while others could fall into the bottom tier due to mismanagement, poor loan recovery, or inability to compete with other financial institutions entering these communities.
- A bottom tier on the order of 30-40 RCBs that are undercapitalized and suffer from governance problems, weak management and/or high staff turnover. Most of these are able to survive on deposits of salary payments to local civil servants and others and because they are the main financial institution in their community, although they are unlikely to grow substantially. Only a few of these may actually be distressed and possible candidates for closure, which in any case is invariably resisted strongly by their local communities, traditional and political authorities. In this regard, BoG is encouraged to sanction RCBs that fail to meet capital requirements.

43. The existence of the ARB Apex Bank supported the rural banking system by serving as a “mini central bank” for RCBs, providing a range of financial services (treasury functions, money transfer, specie movement, intermediating between RCBs with liquidity surpluses and deficits, internal audit) as well as monitoring and capacity building. The ARB Apex Bank and the RCBs appeared able, on the whole, to stand on their own as the availability of subsidies has diminished over time. However, the challenges identified above need to be addressed.

FNGOs

44. FNGOs in Ghana remain primarily small and local. Of the 19 FNGOs reporting data to GHAMFIN for 2012, only two had over 10,000 clients, while 10 had fewer than 800. The one exception has been Sinapi Aba Trust, which had a nationwide presence and over 50,000 clients when it transformed into a licensed S&L – first in 2004, when it spun off three branches to Opportunity International S&L, and more recently in 2013, when it was licensed as Sinapi Aba

S&L (thus greatly reducing outreach of the FNGO category). As of January, 2014, only three FNGOs had been licensed in Tier 3 by BoG, reaching eight by the end of the year and 11 by the end of 2015. Another 40-60 multipurpose NGOs engage in microfinance as one among several activities, mostly on a very small scale. Some FNGOs play an important role in serving poor, rural communities that would otherwise have no access to financial services, especially in the poorer northern part of the country. However, they remain small in size and outreach.

45. Given their small size and the fact that they do not (or are not supposed to) mobilize and intermediate voluntary savings from the public, FNGOs do not pose a significant risk to the microfinance industry, let alone to the financial system. For the present, licensing existing FNGOs is a low priority for regulatory enforcement by BoG. However, there is a risk of “regulatory arbitrage” – i.e., businesses setting up and operating as “FNGOs” so as to evade prudential regulations, yet (illegally) mobilizing voluntary savings under the guise of an NGO, as has happened in other countries. The existence and enforcement of the regulations for MFIs substantially reduce this risk.

Credit Unions³⁴

46. Credit unions (CUs) are among the oldest financial institutions in Ghana, as member-based cooperatives that provide savings, loan and insurance facilities to their members. They may be workplace-based, church-based, or community-based. The former are relatively stable due to steady transfer of savings from salaries. Some community-based ones (including producer cooperatives) have introduced microfinance methodologies and become more commercially-oriented. The first CU in Africa was established in northern Ghana in 1955 by Canadian Catholic missionaries. In 1968 they were brought under legislation, and the Credit Union Association (CUA) was formed. At that time, there were 254 CUs (64 of them rural) with some 60,000 members.³⁵ The number of CUs continued to grow to nearly 500 by the mid-1970s, but their financial performance was not particularly strong, due in large part to their welfare focus and a policy of low interest rates to favor low-cost consumer loans, which discouraged savings. High inflation in the late 1970s eroded their capital, and by the early 1990s the number of CUs had fallen by half. Other causes of the decline included economic slowdown, due in part to droughts, and worker layoffs under the Government’s labor redeployment exercise.

47. CUs have been recovering since the 1990s along with the economy and with reorganization of CUA toward a more commercial orientation, a strong monitoring system, and provision of oversight through audit services. CUA innovated by providing both credit insurance (as an agent for an insurance company, which pays off the outstanding loan balance in case of the death of a borrower) and contractual savings (which matches savings, up to a limit, if held at death or to maturity). Its members bear the cost of the audit services, which are conducted in cooperation with the Department of Cooperatives, the registering authority and de facto

³⁴ This section is based in part on Steel, William F., and Andah, D. O., *Rural and Micro Finance Regulation in Ghana: Implications for Development and Performance of the Industry*. Washington, D.C.: World Bank Africa Region Working Paper Series No. 49, 2003; with additional data from GHAMFIN reports.

³⁵ Quainoo, Aba Amisshah, ‘A Strategy for Poverty Reduction through Micro-Finance: Experience, Capacities and Prospects, Accra: draft report of a study commissioned by Government of Ghana, UNDP, African Development Bank, World Bank, August 1997.

regulator in the absence of BoG initiative to implement its mandate to supervise CUs. At the end of 2002 CUA had 253 affiliates with 123,204 members (about a quarter of them Study Groups in the process of becoming full credit unions). By 2014 this had risen to 476 affiliates with 708,416 members (including nearly 25,000 group accounts).

48. Institutionalizing supervision of CUs would help assure stability. In recent years, some CUs have opened up membership more broadly to their community, and may even provide some services to non-members. While this development may be consistent with their community orientation and their growing role as one type of financial institution, it risks undermining the governance structure based on common bond, unless members clearly understand the cooperative principles and responsibility of members for overseeing the safety of their savings. This makes it all the more important to finally institute an appropriate supervisory structure consistent with the NBFi Act and Guidelines for MFIs. Supervision through an independent Board under BoG has been authorized under a new Legislation Instrument finalized in 2016.³⁶ The current, well-functioning system of audits by CUA together with the Department of Cooperatives would be institutionalized under the oversight of this new Board. The Board and its oversight process need to be established, and the growing number and size of CUs could pose some risk for the ability of CUA to exercise adequate supervision through its audit process. BoG should move promptly to establish and budget for the new Board, and seek TA if needed to assess the costs and functioning of this new board, the capacity of CUA to continue to implement the supervisory functions effectively, the ability of the CUs to bear the costs of compliance, and appropriate transitional arrangements to the new system.

Village Savings and Loan Associations (VSLAs)

49. Village Savings and Loan Associations (VSLAs) were introduced to Ghana in 2001 as a particular model of financial self-help groups by CARE International (Cooperative for Assistance and Relief Everywhere), which had been developing the methodology internationally since 1991. Its characteristics are similar to those of traditional rotating and accumulating savings and credit associations (ROSCAs and ASCAs), which use member savings as the main source of capital. Group members (typically averaging about 30) meet regularly (e.g., weekly) to buy from one to five shares, with the proceeds kept in a lockbox with three locks, whose keys are kept by three different members. Members can also borrow from the available funds, at an interest rate set by the group, usually for a period of 3 months. Toward the end of a cycle (usually 12 months), new loans cease while previous ones are collected. At the end of the cycle, the total amount (including interest earnings) is shared among the members in proportion to their total number of shares. A new cycle can then begin.

50. Although interest rates are usually relatively high (5-10 percent month),³⁷ all interest earnings are retained and shared as dividends. This rewards those members who save more than they borrow, as well as restraining demand for (limited) loan funds. In some cases, a portion

³⁶ This L.I. follows through on initial proposals by CUA in the late 1990s for legislation appropriate to the cooperative as well as financial nature of CUs. Since it falls under the legal authority of the NBFi Act, it only required that Parliament be given a period to review it, and then signature by the Minister.

³⁷ Since loans typically are not made during the initial and final months of the cycle, yields can be considerably lower – estimated at 28 percent for CARE VSLAs in 2014.

of the end-of-cycle proceeds may be carried over to facilitate lending at the beginning of the next cycle. The groups also save a certain amount at each meeting into a social fund that can be used for commonly-agreed purposes, such as donations in the case of the death of a member's family or even group investments. This helps to build social capital within the community.³⁸

51. Besides CARE, the methodology has been spread in Ghana by several other international and national NGOs. These include Plan, World Vision, Hopeline Institute and Microfin Plus. Catholic Relief Services's (CRS) Savings and Internal Lending Communities (SILC) are essentially adopting the same model. Together, they are estimated to be reaching nearly a quarter of a million villagers in Ghana, mostly in relatively remote rural areas of the northern part of the country, adding about 3 percent to the total number of clients reached by the MFIs shown in Table 1. PLAN Ghana accounts for the largest share with 6 percent of members, while CARE has 27 percent.³⁹

52. The methodology provides low-income rural residents with access to finance in amounts suited to the limited economic opportunities in rural communities. Average savings per member is relatively small, at about GHS 55, and the total savings mobilized add less than 0.5 percent of deposits of other MFIs. These amounts would be too small to be managed efficiently by other types of MFIs. While the groups themselves are self-managed and financially self-sufficient, the costs of the NGOs that train, facilitate and monitor had to be subsidized for sustainability and expansion of the scheme.

53. Interest has been growing in linking VSLAs to banks and other formal financial institutions. A primary motivation is security: members are reluctant to keep a lockbox full of cash in their homes for fear of attracting robbers. This is especially a problem toward the end of the cycle. At the beginning of the cycle, demand for borrowing may exceed the savings available within the group, so there may also be a motivation to seek external credit. Microfin Rural Bank represents a transformation of an NGO working with VSLAs, whose members constitute a substantial portion of shareholders, and it provides services to them. Such linkages are also being addressed by the Banking on Change (BOC) partnership formed by Barclays UK, Plan UK, and CARE International UK. BOC has been working since 2009 with CARE Ghana and Plan Ghana to link VSLA groups to Barclays, as well as to train them on financial literacy and income-generating activities. Despite strong group formation, only 4 percent were linked to Barclays in the first phase, which lacked branches and designated staff in the targeted areas. However, it must be noted that too much external borrowing for on-lending could put members' savings at risk and would disproportionately reward members who borrow vis-à-vis those who mainly save. Hence it is preferable to let these linkages grow organically than to promote a top-down approach that might over-indebt the groups and weaken the incentive for close oversight by members.

³⁸ The methodology involves simple passbooks with stamps that are comprehensible to illiterate members, and transparent announcement of amounts saved, borrowed and distributed. The groups are entirely self-managed, requiring only a couple of literate members for bookkeeping roles.

³⁹ It is not known what the survival rate is of VSLA groups after the sponsoring NGO stops facilitating them (typically two to three years). On the other hand, once the methodology is known, other communities have been known to adopt it on their own, even without a facilitating NGO.

54. VSLAs also could potentially be a vehicle for banks and telecommunications companies that are looking to extend their outreach to remote rural areas where branch banking is not feasible but mobile telephony is available. Fidelity Bank is partnering with CARE Ghana to make its agency banking services to VSLA groups and their individual members; it has signed up over 3,000 groups.

55. Present risks with VSLAs are relatively low in that they are self-contained groups within defined projects. Risks are likely to grow as more VSLAs continue or are formed outside the NGO project framework and as they become more linked to other financial institutions and begin to mobilize external funds. The immediate issue is that there is no system for monitoring even the number of groups and members, especially those not under existing projects. It would be desirable to investigate how a mechanism for data collection and consolidation could be set up.

MFI Associations

56. The MFI Associations have been called upon to play an increasing role in “public goods” functions such as data collection, monitoring, self-regulation, and financial literacy, but the impending end of subsidies raises questions as to their sustainability. Apart from organizing training for members, these activities offer little possibility for generating revenues from members. The Ministry of Finance (first under RFSP and now under RAFiP) has been subsidizing these activities by MFI associations as part of developing the capacity and performance of the microfinance sector. BoG has indicated its intention to provide some support to certain associations, but this is not systematized or certain in the future. The associations representing the for-profit MFIs – GAMC, GHASALC, MLAG – are the best placed to survive without subsidies, which are estimated to provide on the order of 20-40 percent of their budgets.⁴⁰ In addition, CUA has a long tradition of self-sustainability, and earns substantial income from its audit service and insurance products (it serves as an agent for a life insurance company for group credit [life] insurance on loans by credit unions to their members). In contrast, subsidies are estimated to cover in the range of 70 to 90 percent of the budgets of ASSFIN and GCSCA, which were created in large part to rationalize the governance structure under GHAMFIN as the umbrella body for the microfinance sector. These associations are least able to raise significant funds from contributions by their members, who are not-for-profit organizations and individuals. GCSCA has a longer history going back to 1994, but its membership has been decimated by the advent of the “susu companies” (now MFCs). ASSFIN is still struggling to maintain a permanent office and professional secretariat, although it has gradually improved its governance.⁴¹

57. Governance is also a risk factor for some of the MFI associations. In some, the executives are also operating their own MFIs, making other members reluctant to provide information to the respective association, which could be seen by competitors. When Boards of Directors come exclusively from members, the executive management tends to be controlled by a few self-interested parties. Subsidies provided through RAFiP have been used to try to improve

⁴⁰ RAFiP is introducing measures to monitor these ratios more closely and systematically.

⁴¹ ASSFIN was established in 2004 as part of restructuring GHAMFIN to be a true umbrella body, with subsector associations represented on its board. Until then, GHAMFIN had de facto represented FNGOs, as well as the industry as a whole. For some years, ASSFIN had been run by its officers from their own FNGOs, but in 2013 had a General Meeting to elect new officers and established a separate office.

governance, though the effectiveness of this approach is not conclusive given the still overall weak governance in the sector.

58. GHAMFIN reorganized its governance structure several years ago to make it more representative as an industry-wide umbrella body, with the Board is composed primarily of representatives of the subsector associations (some additional members elected from the general membership of MFIs or co-opted from individuals with relevant expertise). GHAMFIN depends on subsidies for a quarter to a third of its operating costs – which have been rising because of its expanding roles in regulation and financial literacy. It must be noted, however, that this ratio does not take account of the substantial additional funds to the sector that are leveraged by the organization – i.e., scholarships, training costs, and other costs paid directly by the funders for programs that are managed by GHAMFIN (and to a lesser extent by the other associations). For example, in 2014, GHAMFIN’s operating budget of US\$380,000 was expected to leverage additional expenditures of double that amount by funders of and participants in the programs it is implementing.

59. The ability of GHAMFIN to leverage its current level of services and support to the sector would be curtailed by a loss of subsidies. GHAMFIN has been perceived as effective as a forum for addressing issues such as regulation that affect the entire sector and disseminating good practices in areas such as agricultural finance and financial literacy (including facilitating annual meetings of the Microfinance Forum, chaired by the Ministry of Finance). It has regularly published aggregate data and performance indicators for the industry, which otherwise would not be available⁴² It works closely with the international Small Enterprise Employment and Promotion (SEEP) network to introduce current good practices in microfinance and train MFIs on monitoring and reporting. GHAMFIN has already purchased a building where it could co-locate with other associations, also saving on rent.

13. In light of the large number of institutions/associations, lack of clear impact, and perpetual reliance on subsidies, a systematic review is needed. The purpose would be to assess the role, effectiveness, and feasibility of the MFI associations as well as how they might be restructured and/or consolidated to more effectively and sustainability provide needed services such as adapting to the regulatory regime, monitoring, and reporting, as well as extending financial literacy and consumer protection to the public. The effects of a decline in the ability of GHAMFIN and the associations to undertake these functions would likely not be immediate or drastic, but their role needs to be observed in the context of overall reform of the sector and its future needs. An assessment could investigate further what functions of the associations could be streamlined and consolidated, how training should be undertaken in the absence of systematic subsidies, the scope for them to engage in revenue-generating activities, and to what extent associations can facilitate implementation of regulation. In this regard, the authorities are encouraged to conduct a sectoral assessment in search of a more efficient structure to support needed functions – potentially including financial – in a well-targeted, transparent, and sustainable manner. As noted previously, this type of prior review should inform any consideration for dedicating additional public financial resources to this end.

⁴²Although BoG should increasingly be able to compile financial data on the microfinance sector, it does not include some key microfinance indicators such as number and gender of clients, nor make data readily accessible. It would be desirable to work with BoG to develop more comprehensive reports on the microfinance sector.

Government Intervention

60. On the whole, the policy environment in Ghana is favorable for development of microfinance, with a legal and regulatory environment that permits various forms of MFIs and with Government mainly providing capacity-building support through projects. Where regulations have played a proactive role in permitting new types of institutions, such as RCBs and S&Ls, or effective self-regulatory mechanisms have emerged through associations, such as CUA and GCSCA, growth has generally been orderly and effective in extending outreach. Where regulation has lagged, as in the case of the proliferation of for-profit businesses engaged in financial activities (now regularized and MFCs and Money Lenders), problems have arisen. One problem underlying the latter has been the lack of an official strategic framework that might have anticipated such issues or developed a strategy for continued proactive expansion of regulation. The Ministry of Finance has twice facilitated a consultative process leading to a national Microfinance Strategy (Ghana 2006), though in neither case was the resulting paper presented to Cabinet (in part because both were completed in election years, followed by a change of Government).

61. Although the Government has not intervened directly in the operation of MFIs, there have been persistent efforts to provide subsidized, often directed credit; this type of intervention may have a harmful and distortionary impact on the sector and should be discontinued. This reached its height under the Highly Indebted Poor Country (HIPC) initiative, under which Ghana's obligation to allocate funds to poverty alleviation was met by giving most Ministries funds to disburse as "microcredit." Efforts to bring these credit lines under a coherent management structure failed, but eventually resulted in the establishment of the Microfinance and Small Loans Centre (MASLOC) in the Office of the President and funded by the Government's Budget. Because it restricts the interest rates that can be charged on its loans, and especially because of the repayment risk when the MFI has no control over who gets the loans, MFIs only provide administrative functions for MASLOC funds, treating them off their books as "managed funds." Low fees to the MFIs (e.g., 1 per cent) mean that they do not undertake collection efforts, leaving that to MASLOC staff.

62. It appears that MASLOC is also perceived as a government handout that need not be repaid; as a result, it should be urgently reviewed, along with other development finance schemes in support of the microfinance sector, which should be subject to a review prior to their continuation. There is some evidence that people do distinguish between Government loans and private loans in terms of the obligation to repay. A survey in Yilo Krobo District found that 82 percent of respondents thought it was "not important" to repay MASLOC loans, as against only 2 percent with respect to loans from RCBs' own funds, while 44 percent of respondents viewed loans from the Millennium Development Authority (MiDA, a US-funded Government program implemented through the RCBs, which bore the credit risk) as "a government handout."⁴³ Consequences for repayment can be severe: "PFIs [participating financial institutions] as a whole had repaid about 65 percent of the loans to the Fund by the end of the main MCA Ghana Program cycle in February 2012 [but] less than 22 percent had been recovered from the

⁴³ Fuseini, Hamidu, 'Behaviour of Borrowers Towards Loans from Private and Public Funds in the Yilo Krobo District.' Legon, University of Ghana, Institute of Statistical, Social and Economic Research, M.A. dissertation, 2012, p. 81.

sub-borrowers.”⁴⁴ Nevertheless, to the extent that MFIs handle MASLOC funds, there is a risk of contaminating the performance of their own portfolios and affecting public perceptions of microfinance.⁴⁵

Financial Consumer Protection and Financial Capability

63. The existence of different types of MFIs and microfinance methodologies in Ghana represents a positive diversification of supply that can enhance financial inclusion, but it can also be confusing and potentially harmful in the absence of adequate financial consumer protection measures and low levels of financial capability. Consumers are not necessarily aware of the choices before them and their implications, particularly the risks of over-indebtedness and of depositing funds in risky investments and institutions. The purpose and benefits of licensing are not well understood. The profit motive has attracted capital to serve various market niches, but it also drives promotion of credit at high, often opaque interest rates and fees that borrowers may not be able to afford. Because interest charges in microfinance are most often stated on a per-month basis and charged as a “flat rate” on the initial amount (rather than on declining balance), consumers are usually not aware of the true effective rate of interest. While the 2008 Borrowers and Lenders Act (773) mandates publication of annual percentage rates, including by RCBs and NBFIs, clarification is needed as to if and how this requirement is to be applied to MFIs.

64. Financial consumer protection is becoming an increasingly important topic in Ghana, and the authorities have taken some steps to address some of the existing challenges, though further reforms are required and planned with the support of the World Bank. The existing legal and regulatory framework for the financial sector includes some provisions addressing financial consumer protection issues, while work is underway on further expansion of market conduct requirements. In credit sector for example, these include provisions, albeit still limited, related to disclosure, over-indebtedness, fraud, complaints handling, and data protection. Further diagnostic work and consumer protection is underway, and is expected to lead to directives focusing on dispute resolution requirements (at the level of financial institutions) and disclosure requirements, including calculation of effective interest rate. The institutional mandate to regulate and supervise financial consumer protection in MFI sector rests with the Bank of Ghana but its capacity to effectively supervise existing market conduct rules appears limited and is primarily focused on handling of complaints. The World Bank has recently conducted a Diagnostic Review of Financial Consumer Protection focusing on banks, non-bank financial institutions, payments, and insurance sectors, which will serve as a basis for specific recommendations for strengthening and operationalizing the legal and institutional framework for financial consumer protection. In addition, the World Bank has mobilized resources for initial technical assistance aimed at supporting the BoG in operationalizing its market conduct function.

⁴⁴ Brantuo, Yaw. ‘The MiDA Agricultural Credit Programme: Successes, Challenges, Lessons Learned and Prospects.’ Accra: *The Microfinance News*, Edition 3, January 2014.

⁴⁵ As community-based institutions, RCBs are especially susceptible to strong pressures from local authorities. The overall non-performing loan portfolio of RCBs averaged 12.3 percent as of March 2015 (higher than for universal banks), with 38 (out of 138) above 20 percent and 78 above 10 percent. (ARB Apex Bank, ‘Review of the Performance of RCBs for the 2nd Quarter Ended 30th June 2015.’ Accra: ARB Apex Bank, 2015)

65. Similarly, the need for enhancing financial capability of consumers has been recognized, though efforts to design and implement financial education programs to this end have been sporadic, uncoordinated, and of unproven effectiveness. The BoG has recognized financial literacy in the context of subscribing to the Maya Declaration on Financial Inclusion. The Ministry of Finance has periodically sponsored five Financial Literacy Week since 2008. The SPEED Ghana Project (funded by Danida and GIZ) developed posters, pocket guides, and brochures on savings, loans, investments and insurance (the 'ABCs') which were used by the Ministry of Finance for the National Financial Week celebrations between 2008 and 2010. Subsequently, GIZ/RF sponsored the development of financial education materials including DVDs, radio jingles, meant for the general public, as well as teaching and learning materials for senior high schools which were piloted. GIZ/RF also formed a working group comprising representatives from GHAMFIN, MFI associations and BoG to develop and pilot financial education materials. GIZ/RF has also worked with the Ghana Education Service (GES) to pilot financial education in senior high schools which is waiting for GES/Ministry of Education to integrate the materials in the curriculum of the schools, as well as funding for systematic financial literacy programs. In 2015, RAFiP launched some pilot efforts for financial literacy using some of the above-mentioned materials, including training-of-trainers for field staff of selected MFIs and training for designated target groups (including women and farmer-based organizations). These efforts provide a good foundation which, upon assessment of their effectiveness, could be built upon for developing financial capability of consumers.

66. However, the financial capability efforts have not been addressed in a strategic and coordinated fashion. Based on a number of recent impact evaluation studies of financial education programs globally, the results of implemented programs are mixed. Some studies found evidence of effectiveness, while others reported mixed or no evidence. The recorded positive impact of some of the financial education programs implies that the quality of design of such programs is an important consideration. In this regard, the authorities should consider development of a financial education strategy in order to prioritize the areas where intervention may be warranted and to ensure that the focus remains on programs with high potential impact. The development of the strategy should ideally be informed by the results of a nationally representative financial capability survey or alternatively through other methods of gauging financial capability levels (e.g. adding specific questions to other planned surveys, conducting focus groups, and so forth). The development of the strategy should be preceded with the mapping and review of existing financial education initiatives and programs to determine their effectiveness.⁴⁶

V. Strategic Options and Recommendations

67. This section presents on-going measures and recommendations to implement the existing framework for microfinance development and regulation, with the expectation that these can be integrated into a more comprehensive strategy for financial inclusion. The objective is to address the challenges and risk factors by: improving the policy, legal and regulatory framework; improving implementation of and compliance with MFI regulations;

⁴⁶ For details see *Financial Education Programs and Strategies: Approaches and Available Resources*. Available at <http://responsiblefinance.worldbank.org/~media/GIAWB/FL/Documents/Publications/Financial-Education-Programs-and-Strategies.pdf>

streamlining the institutional support framework; and developing a strategic framework for financial inclusion, including strengthening microfinance regulation, and enhancing consumer awareness and financial capability. This section explains the rationale for key recommendations that emerge from the above analysis (see table in Executive Summary).

Improving the Policy, Legal and Regulatory Framework

68. Ghana’s legal and regulatory framework for microfinance could benefit from further improvement. Three modifications to unify and complete the legal framework for regulation of MFIs and other financial institutions are currently underway, and may subsequently need support for implementation:

- New Banks and Specialized Deposit-taking Institutions Bill to integrate the regulation of banks and other deposit-taking financial institutions, which will help formalize inclusion of MFIs as part of the formal financial system;
- New Legislative Instrument covering regulation and supervision of Credit Unions;⁴⁷
- In addition, draft legislation that is currently being reviewed by Parliament would set up a deposit protection scheme. Although deposit-taking MFIs would be covered in principle, it is unclear when they are expected to be phased in the scheme; given the sectoral complexities and performance issues any decision to expand the coverage to MFIs should be preceded by careful feasibility assessment.

69. The legal and institutional framework for financial consumer protection requires strengthening. The previously mentioned and forthcoming Diagnostic Review of Financial Consumer Protection conducted by the World Bank at the request of the authorities will include specific and action oriented recommendations critical for reform of the existing framework and operationalizing BOG’s market conduct function.

70. Further assessment is needed on the feasibility of extending credit referencing to MFIs. GAMC instituted a low-cost system for its members to cross-check loan commitments of their clients, but it does not qualify under the Credit Reporting Act (2007) and had to be suspended. Some preliminary discussions were held among BoG, GHAMFIN and GAMC, but the existing Credit Reference Bureaus have not been particularly receptive, and further work is needed to find a way to incorporate data on MFIs into the formal credit referencing system and make it accessible to MFIs in an affordable and sustainable fashion.

71. An updated policy and strategic framework is needed for microfinance development; this could be achieved if BoG developed a Regulatory Strategy for the MFI sector, along with an implementation action plan, including the issues of reforming the sector, improving capitalization, enhancing supervision and compliance with regulations, resolution, and restructuring the support institutions. Such a strategy could offer vision for development of the sector and enforcement of regulations in light of the current challenges outlined in this note and highlighted further in the following paragraphs. BoG measures with respect to regulating MFIs

⁴⁷ BoG has so far declined to supervise credit unions directly, even though they were included in 1993 NBFIs Act and are in Tier 2 of the Microfinance Guidelines. The L.I. authorizes a separate Board (including representatives of BoG, the Department of Cooperatives and CUA) to oversee the supervision process currently carried out by CUA together with the Department of Cooperatives.

since 2011 have been more in reaction to developments within the sector than part of a development strategy. The Guidelines for MFIs and establishment of a Microfinance Unit in BoG are consistent with recommendations 54 and 58 of the Financial Sector Strategic Plan II (FINSSP II, covering 2012-16), as well as the 2010 CDC Consult report commissioned by GHAMFIN through MoF and GIZ, but there is no specific GoG program of support for implementation of this regulatory framework.⁴⁸ The Ghana Microfinance Policy (GHAMP) and Agricultural Finance Strategy and Action Plan (AFSAP) were prepared in the late 2000s through a government-led process of consultation with stakeholders. However, since neither was submitted to Cabinet (in part because they were completed in an election year before a change in power), there is no official strategic framework or process in place. In this regard, a regulatory strategy to continue developing an inclusive, sound and well-regulated microfinance sector is needed, along with consideration of how implementation phase will be funded.

Improving Implementation of and Compliance with MFI Regulations

72. BoG needs a clear strategy for regulation, development, implementation and communication regarding the microfinance sector in order to lead, rather than just respond to developments. With the initial licensing process completed and greater clarity as to which MFIs are de-licensed or operating without a valid license by the end of 2015, it would be desirable for BoG to better inform the public of objectives and developments in the sector. To continue improving regulatory compliance the MFIs need to build their capacities to meet new reporting template developed by BoG, as well as on international microfinance indicators such as those used by GHAMFIN and The MIX Market. BoG staff likewise require training and capacity building to regulate and supervise a large number of diverse institutions.

73. A substantial gap remains between the prudential and reporting requirements and the ability of MFIs to comply. Although BoG, GAMC, GHAMFIN and other associations have undertaken substantial efforts to provide training that supports the transition to regulation, the cost-sharing funding through RAFiP's Capacity Building Fund (CBF) and Danida's Training Seed Fund for weaker RCBs have ended.⁴⁹ CUA, ARB Apex Bank and GAMC all have (or are building) their own training centers, but whether these can be financially self-sustainable is uncertain. Willingness and ability of MFIs to pay the full cost of training remains low (especially for non-operational topics such as reporting and governance), and quality control is an issue. BoG has provided some limited training on an ad hoc basis, focused on regulatory requirements. A comprehensive review is needed to determine the capacity constraints of MFIs to comply with the

⁴⁸ The GIZ Responsible Finance program has provided technical assistance to BOG in preparing the regulations and rules, and their implementation through development of supervisory capacity and tools (such as a database system for off-site supervision and risk-based on-site supervision manual), as well as to GHAMFIN to develop materials for financial literacy and consumer education. RAFiP has helped with implementation through capacity building of both MFIs and their associations. But both programs are ending.

⁴⁹ The CBF was built on a demand-driven, cost-sharing approach (70-80 percent subsidies), with active involvement of the MFI associations in both needs assessment and implementation, to foster sustainability. A private firm is contracted to manage the CBF and assure quality. It prequalified trainers in 16 managerial and technical subject areas, each with a standard, modular set of training manuals. A 17th manual for a fully-subsidized, concentrated, one-week course on Microfinance Management Principles and Practice was designed in 2012 using modules from several existing manuals, to help orient management and staff of MFCs and other MFIs that were applying for licenses but had limited background in microfinance.

new regulatory system and to continue improving their capabilities. As an incentive for MFIs to improve governance, BoG could consider defining clear standards that would help guide (i) selection of Directors for MFI Boards and (ii) development of training and certification programs for MFI Directors, managers and staff.

Improving Capitalization

74. Capitalization and liquidity are important constraints among both RCBs and MFCs, and BOG should strengthen enforcement of its regulations. BoG has been steadily increasing minimum capital requirements for all types of financial institutions (see Table 2). This primarily serves as a barrier to new entry, as BoG has been reluctant to close down functioning RCBs and other MFIs that it previously licensed (unless they become insolvent). Efforts to encourage mergers have had little effect; only one merger process took advantage of funds made available through RAFiP/Danida. RCBs face two main impediments to merging and attracting additional capital from either external or local investors: (i) strong resistance of local communities and leaders to loss of control; and (ii) lack of up-to-date share registers. A study by RAFiP in coordination with ARB Apex Bank gathered data on the extent of the share register problem and attitudes toward external investment, but the Apex Bank has been reluctant to take the lead in addressing the issue systematically. Although rectifying share registers is feasible and would help RCBs to mobilize more capital, the weaker RCBs would have difficulty affording the needed technical assistance. MFC owners also appear reluctant to give up control. There have been some buyouts among MFCs, especially by new investors seeking an existing license, but little indication of a willingness to merge in order to meet requirements. BoG will have to start sanctioning RCBs and MFCs that fail to meet increased minimum capital requirements if it wishes to create an incentive for mergers and consolidation to take place. There may also be a need to develop a MFI resolution framework to deal with orderly exit of deposit taking companies that are unable to meet minimum capital and prudential standards.

Restructuring MFI Associations

75. The MFI associations have played an important role in the institutional structure and strengthening of the microfinance sector, but a more sustainable organizational structure and approach to funding are needed to move forward. The associations vary widely in competence and ability to survive without subsidies. Some progress has been made in professionalizing their secretariats so they are managed independently of the operators, to minimize conflict of interest and the reluctance of members to provide data, but this depends heavily on subsidies. A review is needed of the MFI associations to prepare an “exit strategy” toward more cost-effective consolidation and delivery of monitoring, training and other functions of associations, including centralization where appropriate. This review should clearly define the “public goods” functions that can most effectively be provided through such organizations, propose how the costs should be borne, and articulate an approach to monitoring and evaluation.

Developing a Strategic Framework for Financial Inclusion

76. To support enhancement of financial capability in the long term, the authorities should consider development of a financial education strategy along with a prioritized and

costed implementation action plan. This approach would replace the *ad hoc* interventions and would facilitate development of more targeted interventions addressing specific gaps and priorities. Finally, the subsequent design of new financial education programs should incorporate findings of the impact assessments of already implemented initiatives, while implementation should rely on pilots prior to full-scale roll out, and should include impact evaluation mechanisms from the outset.

77. It is also recommended to move beyond a general commitment to financial inclusion by preparing a comprehensive National Financial Inclusion Strategy, along with a prioritized and costed action plan. Drawing on an initial mapping of the financial inclusion landscape in Ghana undertaken in 2014 (with support from GIZ⁵⁰), the MoF initiated a Financial Inclusion Task Force in 2015. The World Bank has recently secured technical assistance in support of the development of a National Financial Inclusion Strategy, and it is recommended to undertake a process of stakeholder consultations to agree on definitions, information needed, and areas of focus and to proceed with development of the Strategy.

⁵⁰ GIZ's Responsible Finance Project provided support to the MoF towards the development of a financial inclusion strategy, including among others sponsoring mapping of Ghana's financial inclusion landscape, stakeholder consultation and workshop which brought stakeholders together to define Ghana's view of financial inclusion, and agree on the pillars to focus on, vision, objectives and targets.

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Annex I: Bank of Ghana Operating Rules and Guidelines for Microfinance Institutions

NOTICE NO. BG/GOV/SEC/2011/04

In pursuance of the provisions of the Non-bank Financial Institutions Act, 2008 (Act 774) and the Banking Act, 2004 (Act 673) as amended by Act 738, the Bank of Ghana hereby issues the following Rules and Guidelines for the information of the general public and for compliance by all individuals and entities operating in the microfinance sub-sector. For the avoidance of doubt, Rural and Community Banks (RCBs), Savings and Loans Companies and other financial intermediaries already regulated under the Banking Act shall continue to be so regulated. All other intermediaries such as Susu companies and Susu collectors, money lenders and other financial service providers shall comply with this Notice.

Regulated Activity

1. The taking of deposits and the granting of credit for whatever tenor constitutes regulated activity under the Banking Act, 2004 as amended and the Non-bank Financial Institutions Act. Except where expressly exempted in writing by the Bank of Ghana, persons and or institutions undertaking such activity require a licence issued by the Bank of Ghana.
2. All institutions or persons engaged in activities that involve deposit taking or the granting of credit shall obtain a license or an exemption from the Bank of Ghana before commencing or continuing such activities.
3. Institutions that were in existence or persons engaged in such activities before the coming into force of the Non-bank Financial Institutions Act 2008 or this Notice, whose source of authorization is a repealed legislation such as the Money Lenders Ordinance (Cap 176) are hereby directed to take steps to be re-licensed by the Bank of Ghana.

Categorization of Activities

For the purposes of this Notice the following categorization shall apply to all activities in the microfinance sub-sector:

1. Tier 1 activities shall comprise those undertaken by Rural and Community Banks, Finance Houses and Savings and Loans Companies – These institutions are regulated under the Banking Act, 2004 (Act 673).
2. Tier 2 activities – Those activities undertaken by
 - i. Susu companies and other financial service providers, including Financial Non-Governmental Organizations (FNGOs) that are deposit taking and profit making.
 - ii. Credit Unions. However, credit unions are not regulated under this Notice. A Legislative Instrument under the Non-Bank Financial Institutions (NBFI) Act, 2008 will soon be passed to regulate their activities.
3. Tier 3 Activities – Those activities undertaken by
 - i. Money lenders
 - ii. Non-deposit taking Financial Non-Governmental Organizations (FNGOs).

Money lenders and Financial NGOs are encouraged to belong to an umbrella Association. FNGOs desiring to take deposits shall convert from companies limited by guarantee to companies limited by shares.

4. Tier 4 activities – Those activities undertaken by
 - i. Susu collectors whether or not previously registered with the Ghana Cooperative Susu Collectors Association (GCSCA);
 - ii. Individual money lenders.

Individuals and entities engaged in the above activities are encouraged to form associations for the purpose of furthering their objectives and or dealing with regulators and other stakeholders.

Regulatory Requirements

Tier 1 Activities

These are regulated under the Banking Act 2004 (Act 673), ARB Apex Bank Regulations, 2006 (LI 1825), the Non-bank Financial Institutions Act, 2008 (Act 774) and respective Notices and Circulars issued by the Bank of Ghana.

Tier 2 Activities

The following regulatory and supervisory requirements shall apply to all Tier 2 category activities:

1. ***Business form:*** All Tier 2 activities, except credit unions, shall be undertaken by companies limited by shares. Companies undertaking Tier 2 activities shall include the word 'microfinance' in their names.
2. ***Capital:*** Institutions in this category shall hold an initial minimum paid up capital of not less than GH¢ 100,000.00 for one unit office. The opening of branch(es) shall be subject to higher capital requirements. Tier 2 institutions shall, in addition to the minimum capital requirement determined by the Bank of Ghana also maintain a minimum capital adequacy ratio of 10%.
3. ***Branch expansion:*** Tier 2 institutions shall be eligible to establish branches subject to prior approval of the Bank of Ghana and compliance with the higher capital requirement as determined by the Bank of Ghana.
4. ***Permissible Activities:*** Tier 2 institutions shall undertake the following:
 - i. Accept deposits from the public. No single deposit shall exceed 5% of the Company's paid up capital.
 - ii. Make loans to their customers as follows:
 - a. a ceiling of 5% of the company's net worth for unsecured exposures;
 - b. a ceiling of 20% of the company's net worth for secured exposures; and
 - c. a ceiling of 1% of the Company's net worth per member of the group for group loans
 - iii. Tier 2 institutions may only undertake any other services with prior written authorization of the Bank of Ghana.
5. ***Non Permissible Activities:*** Tier 2 institutions shall not undertake the following
 - a. issue checking accounts;
 - b. engage in foreign exchange business; and
 - c. engage in any trading activities or hold any stocks of goods for sale to their clients.
6. ***Prudential Oversight:***
 - i. Tier 2 institutions shall submit periodic prudential reports to the Bank of Ghana, of varying periodicity as may be determined by the Bank of Ghana.
 - ii. Tier 2 institutions may be subject to on-site supervision of such periodicity as may be determined by the Bank of Ghana.
 - iii. An operating licence shall be subject to annual renewal upon satisfactory performance and payment of the appropriate licence renewal fee.

Tier 3 Activities

1. **Business form:** All Tier 3 activities shall be undertaken by companies limited by shares (Money lenders) or companies limited by guarantee (FNGOs). Companies undertaking money lending activities shall include the words 'Money lending' in their names. Companies undertaking non-deposit taking microfinance activities shall include the acronym 'FNGO' in their names.
2. **Capital:** Tier 3 institutions shall maintain a minimum paid-up capital of GH¢60,000. In addition, they shall maintain a gearing ratio not exceeding eight (8) times their capital.
3. **Branch expansion:** Tier 3 institutions shall be eligible to establish branches subject to the prior approval of the Bank of Ghana and compliance with any other conditions determined by the Bank of Ghana.
4. **Permissible activities:** Tier 3 *institutions* shall undertake the following:
 - i. The granting of micro-loans to their customers provided an unsecured loan shall not exceed 10% of the paid up capital of the entity.
 - ii. The raising of funds, excluding deposits, from high net worth individuals, wholesale sources and donors. This activity shall be subject to observance of a minimum tenor for borrowing of not less than ninety days and a gearing ratio of not more than 8 times the paid up capital.
 - iii. Any other services subject to written authorization by the Bank of Ghana.
 - iv. In the case where money lenders or non-deposit taking FNGOs receive deposits as collateral for lending, these shall be held in an escrow account with a designated commercial bank.
5. **Prudential Oversight**
 - i. Tier 3 institutions shall submit periodic prudential reports to the Bank of Ghana, of varying periodicity as may be determined by the Bank of Ghana.
 - ii. Tier 3 institutions may be subject to on-site supervision of such periodicity as may be determined by the Bank of Ghana.
 - iii. An operating licence shall be subject to annual renewal upon satisfactory performance and payment of an annual licence renewal fee.

Tier 4 Activities

Tier 4 activities comprise those activities undertaken by individual Susu collectors, Susu enterprises (with a registered business name), individual money lenders and money lending enterprises. They may operate in a defined geographical area such as a market or a suburb.

- i. **Business form:** Tier 4 activities may be undertaken by individuals or by enterprises with a registered business name. All Tier 4 operators shall belong to an umbrella Association such as the Ghana Cooperative Susu Collectors Association (GCSCA). The registered business name of susu enterprises shall include the word 'susu'. The registered business names of money lending enterprises shall include the words 'money lending'.
Individual money lenders are advised to form an Association as a platform for educating and informing each other as well as a forum for interacting with regulators and other stakeholders.
- ii. **Capital:** There shall be no minimum capital requirement for an individual Susu collector or money lender. However, each registered member of an umbrella Association shall contribute to an Insurance Fund to be set up by the Association.
- iii. **Permissible Activities:** Tier 4 institutions shall engage in Susu collection or money lending only. Susu collection involves the periodic collection of deposits from the general public and the refund of such accumulated deposits at the designated times for a fee. Money lending shall involve the granting of credit for such tenors as agreed between the lender and the borrower.

- iv. **Branch expansion:** Tier 4 operators shall carry out their activities within a defined geographical area such as a town, city, a market or a suburb and shall not operate branches, except with the prior written approval of the Bank of Ghana.
- v. **Prudential Reporting:** Umbrella Associations of Tier 4 institutions shall collect and collate statistics on the operations of their members and furnish this to the Bank of Ghana periodically as may be determined.

Licensing Requirements

The licensing requirements for microfinance institutions are attached to this Notice as Appendix 1 and the same is a part of this Notice.

Effective Date of Notice

This Notice takes immediate effect and is applicable to all existing and prospective operators in the microfinance sub-sector.

Transitional Period

Existing operators have a period of six months from the date of this Notice to take steps to regularize their operations with the Bank of Ghana or wind up.

Amendments or modifications to this Notice

The Bank of Ghana may amend or modify this Notice as it deems fit from time to time.

**ALEX BERNASKO
THE SECRETARY**

July 11, 2011

APPENDIX 1
LICENSING REQUIREMENTS FOR MICROFINANCE INSTITUTIONS

A. TIER 2 AND TIER 3 INSTITUTIONS

1. Restrictions of Eligibility to Corporate Entities

No person other than a body corporate, incorporated in Ghana, shall be eligible to apply for a licence to carry on Tier 2 or Tier 3 microfinance business.

2. No person shall carry on Microfinance business unless it has obtained from the Bank of Ghana a license for that purpose.

3. Restrictions on shareholding

- i) Shareholding of microfinance institutions such as Susu companies, Deposit taking financial NGOs and Money lending companies shall be restricted to only Ghanaians.
- ii) Shareholding in non-deposit taking microfinance institutions may be exclusively Ghanaian, exclusively foreign or jointly Ghanaian and foreign.

4. Application procedures

i) Application for a licence

Every application for a licence shall be made in writing to the Director, Banking Supervision Department, Bank of Ghana, Accra, and shall be accompanied by:

- [a] A certified true copy of the Certificate of Incorporation and Regulations of the company.
- [b] Names, addresses, occupations of persons who would hold significant shares directly or indirectly in the proposed venture and the respective values of such holdings as well as their corporate affiliations.
- [c] Completed Personal Questionnaire on the particulars of the directors and senior persons to be in-charge of the management of the business, including their background, financial position, business interests and particulars of other business concerns under their control or management.
- [d] A feasibility report including a business plan and financial projections of the company for the first five years of operation.
- [e] Information on capital and sources of funds; and
- [f] Such other particulars as the Bank of Ghana may require.

ii) Interview

The Banking Supervision Department shall interview the applicant with respect to the application.

5. Minimum Paid-Up Capital

Tier 2 Activities

All Tier 2 entities shall require not less than GH¢100,000.00 [One hundred thousand Ghana cedis only] as minimum paid-up capital.

Tier 3 Activities

All Tier 3 entities shall require not less than GH¢60,000.00 [Sixty Thousand Ghana cedis only] as minimum paid-up capital.

6. Approval in principle

The Bank of Ghana may issue an ‘approval-in-principle’ to the applicant on such terms and conditions as it may consider necessary and appropriate, if it is satisfied that:

- [a] the applicant would carry on the business with integrity, prudence and the required professional competence; and
- [b] the applicant has the capacity to raise the initial paid-up capital required to hold a licence.

7. Pre-operating Conditions

The Central Bank may issue the final approval and licence to the applicant after satisfying itself that the following pre-licensing conditions have been met.

- i. Minimum paid-up capital – the company has raised the minimum paid up capital
- ii. Premises: The company
 - [a] has provided evidence of title deeds/lease agreements
 - [b] has approvals by relevant authorities
 - [c] has adequate business premises, staff operating area, ventilation, lighting, etc.
- iii. Has demonstrated security of the premises, including adequacy of alarm systems, fire extinguishers, vaults or safes, etc.
- iv. Has in place up to date insurance covers – fire, burglary, fidelity guarantee, etc.
- v. Possesses Operational plans and policies approved by the Board.
- vi. Has accounting procedure manuals, computers and appropriate softwares, etc.
- vii. Has in place adequately trained and sufficiently experienced staff as well as competent key personnel;
- viii. Has submitted its first year pre - operating financial statement of affairs.
- ix. Has met any other conditions imposed by the Bank of Ghana

8. Fees

Tier 2 and 3 microfinance institutions shall pay the following fees:

- i. Processing fee: **GH¢500.00**
- ii. Licence fee: **GH¢1000.00**
- iii. Annual licence renewal fee: **GH¢500.00**

B. TIER 4 OPERATORS

1. Application and Licensing Procedure

Tier 4 operators shall:

- i. Obtain and complete a preliminary registration form for licensing as a Susu collector or money lender
- ii. Register as a member or affiliate with the umbrella Association for Susu Collectors or Money Lenders
- iii. Submit the completed preliminary form, together with a personality profile form endorsed by the executives of the umbrella Association to the Bank of Ghana.
- iv. Be licensed after obtaining satisfactory reports on background checks undertaken.

2. Fees

- i. Application processing fee: **GH¢100.00**
- ii. Licensing fee: **GH¢500.00**
- iii. Licence renewal fee: **GH¢250**

Any enquiry in respect of this Notice may be addressed or directed to:

THE HEAD
BANKING SUPERVISION DEPARTMENT
BANK OF GHANA (9TH FLOOR, CEDI HOUSE)
P. O. BOX GP 2674, ACCRA
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Annex II: Summary of MFI Associations and Functions by Subsector

MFI Association	Year Formed	# of Members (2014)	Main Activities	Role in Regulation	Challenges
All associations			Training needs assessment and organization of capacity building for members; data collection		Smaller associations lack staff to oversee training programs; sustainability of training centers of CUA, ARB Apex Bank and GAMC may be an issue
Ghana Micro-finance Institutions Network (GHAMFIN)	1998		Advocacy for microfinance sector as its umbrella body; data collection, monitoring & benchmarking; good practice dissemination; consumer education; studies	Compiling aggregate data on all subsectors; Monitoring and benchmarking; Advocacy on behalf of MFIs as a whole; Possible hosting of Help/Complaint Desk; Implementation and monitoring of national Code of Conduct	Expanding mandates to provide services to and monitoring of the industry, as well as consumer education, require additional staffing; but ability to generate income is limited by the “public goods” nature of these mandates and the fact that its primary membership base is associations, which themselves have limited financial resources
Association of Rural Banks (ARB)	1981	138	Advocacy for RCBs; represents them on Board of Apex Bank	No role	Reluctant to allow external investment in ARB Apex Bank and to have non-RCB members on Apex Bank Board
ARB Apex Bank	2002	138	Mini-central bank for RCBs, providing treasury and other financial services, training, data collection, inspection	Undertakes inspection of a limited number of RCBs (internal audit); BoG has legal authority to delegate supervision	<ul style="list-style-type: none"> • Inspection Department is small and lacks staff and financial support to work on a substantial scale; • Profitability depends more on interest earned on mandatory deposits from members than on revenues from services to them; • Limited capital (from RCBs only) prevents licensing to engage in own commercial activities; • Board is dominated by RCBs and reluctant to accept external capital and hence members (other than BoG and MoF ex-officio)
Ghana Association of Savings and Loan Companies (GHASALC)	2008	23	Advocacy, promotion of sector	Data collection	<ul style="list-style-type: none"> • Inability of some members to meet the new minimum capital requirements • Need more systematic data on financial and social performance indicators • Low commitment of some members

Ghana Co-operative Credit Unions Association (CUA)	1968	538 (of which 444 full Credit Unions)	Provides insurance, financing facility, auditing service, and performance monitoring (as well as training) to members. Promotes formation of new Credit Unions.	Provides internal audit service on a full cost recovery basis; serves to meet supervisory requirements of Dept. of Cooperatives	CUA has long sought legislation that would recognize the cooperative nature of Credit Unions, as well as their financial function, as a basis for regulation distinct from other types of financial institutions. While BoG has not processed such legislation it has refrained from exercising its direct supervisory authority.
Ghana Association of Micro-finance Companies (GAMC)	2011	638	Dissemination of information and training on regulation; technical assistance to members; product development (Help Desk, credit referencing)	Expected to gather data from and monitor members and help them submit reports for BoG; provide TA to MFCs in difficulty; report quarterly on status of subsector	<ul style="list-style-type: none"> • Governance is not well established; • Executives are themselves operators, lowering confidence of member in providing data; • Lack of quality assurance in training and selection/evaluation of trainers.
Association of Financial NGOs (ASSFIN)	2005	42	Advocacy; mobilizing financial support for the subsector	Facilitate members to understand regulations, apply, comply, and report; report quarterly on status of subsector	<ul style="list-style-type: none"> • Governance is not well established; • Secretariat small and recently professionalized rather than run by industry operators; • Weak financial base of members makes it unsustainable just on member dues and services
Money Lenders Association of Ghana (MLAG)	2010	135 companies 530 individuals	Dissemination of information and training on regulation; advocacy	Gather data from and monitor corporate members and help them submit reports for BoG; inform, register and represent individual members, endorse their applications; operate Insurance Fund; report quarterly on status of subsector	Only association to include individual as well as corporate members. New – governance and secretariat not yet well established.
Ghana Cooperative Susu Collectors Association (GCSCA)	1994	472	Setting standards for self-regulation; advocacy; dissemination of information and training on regulation;	Inform, register and represent members, endorse their applications; operate an Insurance Fund; report quarterly on status of subsector	<ul style="list-style-type: none"> • High turnover of secretariat; • Weak financial base of members makes it unsustainable just on member dues and services; • Little capacity or resources to establish the Insurance Fund