ISSN 2347-4289

Harmonization Of Microfinance Regulation In Ghana: Panacea To Microfinance Problems In Ghana.

Matthew Asare FCCA, Susie Naa Odarchoe Lamptey

Finance Department, University of Mines and Technology, Tarkwa, Ghana;
College of Health Sciences, University of Ghana, Korle-Bu - Accra
Email: asare553@hotmail.com, sussair@gmail.com

ABSTRACT: Microfinance is the provision of financial services in the form of savings, loans and credit to the rural urban poor. Over the last few decades Microfinance has been used as a developmental tool in developing economies. It is aimed at helping to reduce or eliminate poverty by bringing financial services delivery to the door step of the rural urban poor who hitherto could not access financial services through the traditional financial sub-sector. Microfinance has been an age old concept in Ghana in the context of self- help where people save or take small loans or credit from individuals and groups. In recent years Microfinance has been operated in Ghana in many different forms. Microfinance schemes in Ghana have been categorized into formal, semi-formal and informal. For the purpose of regulation the Bank of Ghana (BOG) has adopted a tiered system thereby creating four tiers in the Microfinance landscape. Microfinance schemes in Ghana have been regulated in an uncoordinated manner thereby leading to duplications and non-standardization of products and services. In recent time depositors in Ghana have lost millions of Ghana cedis to unscrupulous Microfinance institutions and this has been attributed largely to the lack of proper regulation and supervision. The study was conducted to examine Microfinance regulation system in Ghana, assess the progress made and identify ways by which Microfinance regulation can be harmonized to make it effective and efficient. The research collected data through the administration of open and closed ended questionnaires distributed among 100 respondents. A total of 90 respondents were drawn from Microfinance practitioners and customers; 10 respondents from regulatory bodies like the BOG and Ghana Microfinance Institutions Network (GHAMFIN). The western regional staff of the BOG and GHAMFIN participated in the study. A simple purposive sampling technique was used to select the Microfinance practitioners, customers and the staff who participated in the study. Descriptive statistics, percentages and frequencies were used to analyze the data. The research found out that the absence of a single regulatory body and an apex body to monitor and supervise the activities of Microfinance institutions has led to duplication, uncoordinated and unauthorized Microfinance activities.

Keywords: Microfinance, Regulation, Apex-body and financial Institution

1 INTRODUCTION

Over the past three decades various developmental approaches have been designed and implemented by governments, policymakers, international development agencies, non-governmental organizations and others aimed at poverty reduction and development in emerging economies. One of such programmes is Microfinance. Microfinance is the provision of financial services in the form of savings and loans or credit to the working poor who hitherto could not enjoy these services from the traditional financial institutions. According to the United Nations, it encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients. The Department for International Development (DFID) defines Microfinance as “the means by which poor people convert small sums of money into large lump sums”. According to them Microfinance services may be seen in terms of four main mechanisms namely loans, savings, insurance and pensions.

2. Problem Statement

The concept of Microfinance is not new in Ghana. It has been an age old concept with us, dating back to the pre-colonial period. There has always been the tradition for the people to save and to take small loans or credit from individuals and groups within the context of self-help to start businesses or farming ventures. This is called the ‘susu’ system in Ghana. In recent years Microfinance schemes have been implemented in various forms and at different levels. Microfinance has been seen as one of the most efficient instruments which aid the fight against poverty reduction and in promoting economic development. It has been identified to play significant roles in poverty reduction and national development. The emergence of Microfinance was also widely acclaimed to be the solution to the age old funding problem for Small and Medium Sized Enterprises (SMEs). In Ghana, Microfinance institutions operate under the Non-Banking Financial Institutions Act, 2008 (Act 774). Sadly this Act does not relate specifically to microfinance. It covers a wide spectrum of non-bank financial services as listed by the first schedule as leasing operations, money lending operations, money transfer services, mortgage finance operations, non-deposit taking microfinance services, credit unions and any other services or operations as the BOG may from time to time by notice designate as such. Periodically the BOG also issues guidelines which seek to regulate the activities of Microfinance institutions in Ghana. Therefore there is no single regulatory framework on Microfinance in Ghana. Also Microfinance schemes in Ghana have been implemented and regulated in an uncoordinated manner thereby leading to distortions, duplications and non-standardization of microfinance products and services. Many of the literature available to the researchers indicate a focus on the impact of microfinance in Ghana. There are only few literatures on Microfinance regulation in Ghana. This is the focus of this research. This study therefore seeks to examine the regulatory framework available in Ghana, assess the successes which have been chalked in Microfinance regulation in Ghana and also identify ways by which Microfinance regulation can be harmonized to make it efficient and effective.

3. Objectives of the study

1. Identify the various forms of Microfinance system in Ghana.
2. Examine the Microfinance regulatory framework in Ghana.

ISSN 2347-4289

3. Assess how microfinance regulation can be harmonized to make it effective and efficient
4. Identify the problems associated with Microfinance regulation in Ghana

4. Research Questions

1. What microfinance schemes are available in Ghana?
2. How is microfinance schemes regulated in Ghana?
3. How can microfinance regulation be harmonized to make it effective and efficient?
4. What problems are associated with microfinance regulation enforcement in Ghana?

5. Literature Review

According to Otero (1999), Microfinance is defined as "the provision of financial services to low-income poor and very poor self-employed people" Schriener and Colombet (2001) also said microfinance is "the attempt to improve access to small deposits and small loans for poorer households neglected by banks" Hoff and Stiglitz, 1990 asserts that the rural credit markets in developing countries are often described as repressed, imperfect and fragmented in the sense that different segments of borrowers are observed to have different levels of access to certain types of loans and certain types of credit institutions. Microcredit refers to small loans whereas microfinance refers to the giving of loans together with the provision of other financial services like savings, insurance, pensions etc. Microcredit can therefore be seen as a component of microfinance because it involves providing credit to the poor but microfinance also involves the provision of additional non-credit financial services like savings, insurance, pensions; just to mention a few. According to the International Monetary Fund (IMF) the Microfinance Institutions (MFIs) that have become self-sustainable tend to be larger and more efficient. They also tend not to target the very poor, as targeting the less poor tends to increase in loan size and improved efficiency indicators, whereas MFIs focusing on the poorest tend to remain dependent on donor funds (MFI, 2005). Hulme and Mosley (1996) concluded in their research on microfinance that most contemporary schemes are less effective than they might be. They further stated that microfinance is not a panacea for poverty alleviation and in some cases the poorest have been made worse-off by microfinance. Rogaly (1996) identified five major faults with Microfinance Institutions as:

1. They encourage a single sector approach to the allocation of resources to fight poverty
2. Microcredit is irrelevant to the poorest people
3. An over-simplistic notion of poverty is used
4. There is an over-emphasis on scale
5. There is inadequate learning and change taking place

In a paper by William F. Steel & David O. Andah (2003) titled Rural and Microfinance Regulation in Ghana: Implication for Development and Performance of the Industry, the researchers found that Ghana's experience shows the value of opening up different tiers of formal, semi-formal and information Microfinance Institutions that provide different products and services to different market niches. They however, noted that taking too promotional an approach and allowing too easy entry in the early stages tend to foster a number of weak institutions, especially when they are using relatively new methodologies that are relatively untested in the local markets. This can both undermine the credibility of that category of institutions and drain scarce supervision resources or foster neglect until the problems become severe. The researchers identified the biggest challenge in regulating Rural and Microfinance Institutions (RMFIs) as finding the right balance between ease of entry for greater outreach, prudential regulation to promote sustainability, and supervision capacity. A research conducted by Staschen S. (2003) which compared microfinance regulation in eleven (11) countries across the world found that Ghana's Non-Banking Financial Institution (NBFI) Law caters for nine different types of financial institutions, of which only a few offer microfinance services. The research found that the case of Ghana illustrates how difficult it can be to clearly separate regulatory tiers. Ghana does not offer a legal window for MFIs per se, but rather defines a number of institutional types, which could potentially provide microfinance services. A concept note on microfinance scaling up in Africa: Challenges ahead and way forward sponsored by African Development Bank (ADB), Mokaddem L. (2009) the researcher identified that many African policymakers have recognized the importance of an enabling macro-economic and legal framework, and in this regard are promulgating policies to support the development of microfinance institutions and inclusive financial system that serve all. He further noted that prudential regulation is needed to protect the financial system, protect depositors, and manage the money supply. The researcher identified difficulties in drafting microfinance legal framework at two levels: Regulation and supervision: "A very inflexible and conservative approach may unduly restrict the supply and expansion of microfinance by not allowing financial institutions to adopt appropriate lending technologies. On the other hand, and much more common, well-intended efforts to promote microfinance may result in an overly lenient framework that enables and permits weak institutions to operate, which in turn may lead to bankruptcies, shake confidence in the industry and cause poor people to lose their savings." It was noted that drafters of new legislation may typically fail to give enough attention to the practical feasibility of supervising compliance with the new regulations. The researcher identified Indonesia, Ghana, and the Philippines, as examples, where dozens of new institutions took advantage of a newly created licensing window, but supervision proved grossly inadequate and a high proportion of them failed them.

6. Significance of the study

It is expected that the findings of this study will help Microfinance practitioners to understand the regulatory requirements which affect the operation of Microfinance in Ghana. The results of the study will also help regulatory authorities in harmonizing microfinance regulation in Ghana to ensure easy compliance and enforcement. Moreover the results can also help policy makers in fashioning out good policies that will promote Microfinance development and regulation in Ghana to facilitate the development of the economy. It will enable Policy makers to design and implement strategies to deal with non-financial banking regulation in Ghana.

7. Methodology

This research was conducted using both primary and secondary data. Primary data was collected through interviews and questionnaires administered to Microfinance customers, practitioners and officials of regulatory bodies including the Bank of Ghana (BOG) and Ghana Microfinance Institutions Network (GHAMFIN). The study employed survey design method. Survey method was adopted because it was deemed to be most

ISSN 2347-4289

suitable and appropriate for management and business research. Additionally, surveywas used because it gives specific and precise data. The survey method was preferred because the population for the study was relatively large. The population was made of customers, microfinance practitioners and staff of regulatory institutions. Customers who have operated microfinance accounts for two years were selected for the study. Microfinance institutions were randomly selected for the study. A purposive sampling technique was employed to select the customers and staff of the regulatory bodies. This was to ensure that all customers and staff had equal chance of selection. A total of 100 respondents participated in the survey. This was made up of 90 Microfinance practitioners and customers and 10 staff drawn from the Takoradi branches of the BOG and GHAMFIN. Microfinance practitioners were selected because they have locations across the Country. Moreover they have operated as a microfinance institution for over ten years. Ten years baseline was deemed to be long enough for Microfinance Companies to be aware and understand the various regulatory frameworks available in Ghana. Customers who had operated their accounts for more than two years were selected for the survey. The researchers distributed questionnaires to 90 participants (practitioners and customers) to answer and later collected by the researchers. A combination of open ended and closed ended questionnaires were used for the study. The study also used interview guide for customers who could not read and write. Secondary data was collected from related literature, publications and reports from Microfinance Institutions, the BOG and the GHAMFIN to help in the triangulation. The data collected were analysed using descriptive statistics, simple frequencies and percentages.

8. Discussion of Findings

8.1 Microfinance Schemes available in Ghana

Available evidence suggests that the first credit union in Africa was established in Northern Ghana in 1955 by Canadian Catholic missionaries (GHAMFIN). However, Susu, which is one of the Microfinance Schemes in Ghana, is thought to have originated from Nigeria and spread to Ghana in the early twentieth century. The ‘susu’ system was noted to be Ghana’s traditional version of microfinance business. The research showed that the Microfinance sub sector in Ghana has three main categories namely formal, Semi formal and the informal suppliers. This categorization was done by the BOG. The Formal sector includes institutions that are incorporated under the Companies Code 1963 (Act 179). The Act gives them the legal identity as Limited Liability companies and subsequently licensed by the Bank of Ghana (BOG) under the Banking Act, 2004 (Act 673) to provide financial services under the BOG regulation. Most of these institutions target urban middle income and high net worth clients. Examples of such institutions include some Commercial and Development Banks, Rural and Community Banks and Savings and Loans companies. The Semi Formal Institutions are those that are formally registered but are not licensed by the BOG. Examples of such institutions are Credit Unions, Financial Non-Governmental Organisations (FNGOs) and cooperatives. It must be noted that FNGOs are incorporated as Companies Limited by Guarantee under the Companies code. Their poverty focus leads them to relatively deep penetration to poor clients using microfinance methods, though on a limited scale. They are not licensed to take deposits from the public. They therefore rely on external sources of funds for micro credit. Credit Unions are registered by the Department of Cooperatives. Cooperative societies and Credit Unions can accept deposits from their members and gives loans to their members only. Even though Credit Unions come under the Non-Banking Financial Institutions Law, they are regulated by the Ghana Cooperative Credit Unions Association pending the introduction of a new Credit Union Law currently underway. The informal sector covers a range of activities called Susu including individual savings collectors, rotating savings and credit associations and savings and credit clubs. It also includes moneylenders, trade creditors, self-help groups and personal loans from families and friends. Moneylenders are supposed to be licensed by the police under the Moneylenders Ordinance 1957.

8.2 Microfinance Regulatory Framework in Ghana

The last few years has seen the proliferation of different microfinance institutions in Ghana. They range from savings and loans companies, Susu collection agencies and other institutions describing themselves as financial services companies. Ghana’s flexible regulatory system has culminated in the operation of a tiered system of microfinance institutions. Information sourced from the BOG revealed that for the purposes of regulation microfinance institutions in Ghana can be classified into four main tiers. They are:

Tier 1 Activities

These are made up of those activities undertaken by rural and community banks, finance houses and savings and loans companies. These institutions are regulated under the Banking Act, 2004 (Act 673), ARB Apex Bank Regulation, 2006 (LI1825), the Non-Bank Financial Institutions Act, 2008 (Act 774) and notices and circulars issued by the BOG.

Tier 2 Activities

The following regulatory and supervisory arrangements shall apply to all tier 2 activities:

i) Business form: All tier 2 activities except credit unions, shall be undertaken by companies limited by shares. Companies undertaken tier 2 activities shall include the word microfinance in their names.
ii) Capital: Institutions in this category shall hold initial capital minimum paid up capital of not less than GH¢2,000,000.00 for one unit office. The opening of branches shall be subject to higher capital requirements. Tier 2 institutions shall in addition to minimum capital requirement also maintain capital adequacy ratio of 10%.
iii) Branch expansion: Tier 2 institutions shall be eligible to establish branches subject to prior approval of the BOG and compliance with higher capital requirement as determined by the BOG.
iv) Permissible Activities: Tier 2 institutions shall undertake the following:
    - Accept deposits from the public. No single deposit shall exceed 5% of the Company’s paid up capital
    - Make loans to their customers as follows
    - A ceiling of 5% of the Company’s net worth for unsecured exposure
    - A ceiling of 20% of the Company’s net worth for secured exposure; and

ISSN 2347-4289

- A ceiling of 1% of the Company's net worth per member of the group for group loans
- Tier 2 institutions may only undertake any other services with prior written authorization of the BOG

v) Non-Permissible Activities: Tier 2 institutions shall not undertake the following:
- Issue checking accounts
- Engage in foreign exchange business and
- Engage in any trading activities or hold any stocks of goods for sale to their clients

.

vi) Prudential Oversight:
- Bank of Ghana requires Tier 2 institutions to submit periodic prudential reports. The period may be varied by the Bank of Ghana.
- Bank of Ghana conducts on site supervision of periods determined by the BOG.
- Operating licenses shall be subject to annual renewal upon satisfactory performance and the payment of appropriate license renewal fees
- Operating licenses shall be subject to annual renewal upon satisfactory performance and the payment of appropriate license renewal fee.

Tier 3 Activities

These are activities undertaken by

a. Money lenders
b. Non deposit taking Financial Non-Governmental Organizations (FNGOs)

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

The following constitute Tier 3 activities:

i) Business form: All Tier 3 activities shall be undertaken by companies limited by shares or companies limited by guarantee.
ii) Capital: Tier 3 institutions shall maintain a minimum paid up capital of six hundred thousand Ghana cedis (GH¢600,000) with a gearing ratio not exceeding eight (8) times their capital.
iii) Branches Expansion: Tier 3 institutions shall be eligible to establish branches. These must be approved by the BOG

Permissible Activities: Tier 3 institutions shall undertake the following:

- The granting of micro loans to their customers provided an unsecured loan shall not exceed 10% of the paid up capital of the entity
- 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 990) days and a gearing ratio of not more than (8) times the paid up capital.
- Any other services subject to written authorization by the BOG.
- 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.

Prudential Oversight:

- Tier 3 institutions shall submit periodic prudential reports to the BOG of varying periodicity as may be determined by the BOG.
- Tier 3 Institutions may be subject to on site supervision of such periodicity as may be determined by the BOG
- An operating license shall be subject to annual renewal upon satisfactory performance and the payment of an annual license renewal fee.

Tier 4 Activities

These are those activities undertaken by

a. Susu collectors whether or not previously registered with the Ghana Cooperative Susu Collectors Association (GCSCA)
b. Individual money lenders

The BOG only encourages individuals and entities engaged in the above activities to form associations for the purpose of promoting their common objectives and or dealing with regulators and other stakeholders. Tier 4 activities comprise activities undertaken by individual Susu collectors, Susu enterprises, 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. The registered business name of Susu enterprises shall include the word "Susu". The registered name of money lending enterprises shall include the words 'money lending'.
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 set up by the Association.

Permissible Activities: Tier 4 institutions shall engage in Susu collection or money lending only. Susu collection involves the periodic collection of deposit from members of the public and the refund of 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.

iii) Branch expansion: Tier 4 operators shall carry out their activities with a defined geographical location such as a town, city, a market or a suburb and shall not operate branches, except with the prior approval of the BOG.
iv) Prudential Reporting: Umbrella Associations of Tier 4 institutions shall collect and collate statistics on the operations of their members and furnish same to the BOG periodically as may be determined.

Credit: Bank of Ghana Notice to Non-Bank Financial Institutions

ISSN 2347-4289

8.3 Harmonization of Microfinance regulation in Ghana

The regulatory system of Microfinance in Ghana encourages flexibility of entry and then adjusting of regulation to suit local conditions of the companies. The study found that there are different regulatory systems for microfinance institutions in Ghana and this creates an opportunity for the emergence of many microfinance companies and the proliferation of financial service providers. It was noted that Microfinance Institutions are regulated by their Apex bodies (GHAMFIN) under the Non-Banking Financial Institutions Act, 2008 (Act 774). Rural and Community banks are regulated under the banking Act 2004 (Act 673). Savings and loans companies are also regulated by the Non -Banking Financial Institutions Act, 2008 (Act 774). The formal financial institutions have thus come under regulation with legal, prudential and other supervisory guidelines in place. Credit Unions on the other hand have their apex bodies that promote their operations and activities. It must be mentioned that there are no definitive regulatory framework that underpins their roles and give them recognition as apex. The Credit Unions Association has initiated the passage of an Act to regulate the activities of the Association. At the 2015 International Credit Union Day in Takoradi on October 17, 2015, the National Chairman of the Credit Unions Association in Ghana announced that a legislative Instrument (LI) has been issued on the bill. The study found that Microfinance Institutions operate under the Non- Banking Financial Institutions Act 2008 (Act 774) which is not specific to Microfinance. The absence of specific regulation for these institutions means that there is no elaborate and transparent process for the licensing, regulation and supervision of these institutions. It came to light that the institutions are unable to attract professionals and institutions that have the requisite know-how in financial management with the structures to ensure effective and efficient microfinance service delivery in Ghana. The study also found that there is no regulatory authority which is responsible for regulating, monitoring and coordinating the activities of microfinance institutions in Ghana. Microfinance institutions are currently monitored and supervised by the supervision unit of the Bank of Ghana. Also there is no elaborate programme for dialogue among stakeholders and Microfinance practitioners and the Bank of Ghana on programs, policies and challenges facing the sub sector. This has the potential to cause fragmentation, duplication and uncoordinated programs and activities which hinders the performance and outreach of Microfinance institutions. Results from the study also revealed that there is inadequate collaboration among Microfinance institutions, Development partners and regulating bodies and this hampers their activities and development. Therefore there is the need for an umbrella body to regulate and monitor the activities of all institutions which offer Microfinance services and products. It will also ensure best practices and set standards for all industry players. It is believed that one umbrella (apex body) regulating and supervising these institutions will bring standardization, efficiency and effectiveness. Common Regulatory standards for all microfinance institutions in Ghana will reduce the uncertainty in the sector thereby improving investment, outreach and accessibility of microfinance products and services. It is envisaged that these will ensure that common regulatory standards can be applied to all Microfinance institutions. It is the belief of the researchers that harmonizing such schemes will accelerate poverty reduction and National development.

8.4 Problems associated with Microfinance regulation in Ghana

One problem which came to light is the absence of national institution responsible for coordinating all activities associated with Microfinance. The study identified different apex bodies such as GHAMFIN, CUA, GCSCA and the Cooperative Council which deal with different aspects of Microfinance institutions in Ghana. The study found that the lack of a single national authority is creating duplication and fragmentation. Out of the 100 people who answered the questionnaires, 80 of them representing 80% called for the establishment of an apex body different from the BOG to regulate, supervise and monitor the activities of microfinance activities in Ghana. Only 20 participants representing (20%) indicated that the existing arrangement where the BOG supervises and monitor the activities of Microfinance Institutions should be maintained. 95% of the people surveyed identified the lack of proper supervision and monitoring as the major problem hampering microfinance activities in Ghana. Another problem identified with microfinance regulation in Ghana is licensing issues and supervision. 90% of the respondents complained about the length of time it takes for institutions to be licensed in Ghana. This has enabled the emergence of unscrupulous financial institutions which spring up offering juicy interest rates to attract unsuspecting clients but later disappear in thin air with huge sums of clients' savings. Many microfinance practitioners also start operations without license leading to closure by the Bank of Ghana. The Bank of Ghana in April 2015 had to close three registered fun clubs which were operating as microfinance institutions in the Brong Ahafo Region, Parts of the Northern Region and the Greater Accra Region. This led to series of demonstrations by savers which also caused the suspension of the District Level Elections held in September 2, 2015 in the Nkoranza District in the Brong Ahafo region. Again in November, 2015 the BOG closed another 70 microfinance companies for operating without licence. Another problem identified is the lack of supervision of microfinance institutions by the Bank of Ghana. The supervisory division of the Bank of Ghana has been overwhelmed by the growing number of microfinance to the extent that they are unable to properly supervise the operations of microfinance institutions across the length and breadth of the country. The recent case of DKM and God is Love who operated for over four years without licence is a testimony of the lack of supervision. The Bank of Ghana came under heavy criticisms for 'sitting aloof' while these microfinance companies engaged in these irregularities leading to the loss millions of Ghana Cedis of unsuspecting customers who fell prey to their tricks. DKM Microfinance institutions has squandered over Ghs177 million of depositors money. The President of the Republic of Ghana in his 2016 State of the Nation Address blamed the Bank of Ghana for the lack of supervision. This was in respect of reports that customers of DKM Microfinance and God is Love Fund club have been swindled of their investments running into millions of cedis. The study also revealed that microfinance institutions lack capacity, lack coordination and collaboration, and has poor institutional linkages.

9. Conclusion

Microfinance is deemed to be one of the most powerful tools that governments, developmental partners and international donors can use to efficiently and successfully deal with the extreme poverty in developing nations. Microfinance in Ghana has evolved with a tiered system of different laws and regula-

ISSN 2347-4289

tions for the different types of institutions in response to local conditions, culture, needs and institutional developments. Microfinance institutions in Ghana have thrived on this arrangement. It is our considered view that there is an urgent need to harmonize the regulation and supervision of Microfinance institutions in Ghana. The researchers advocate the promulgation of microfinance law to specifically deal with microfinance. This will set out the regulatory structure which will ensure proper monitoring, supervision and administration of microfinance activities in the country so that the full potential of the financial sub-sector can be realized. It is the firm belief of the researchers that the establishment of a single regulatory authority or Apex body to supervise and monitor the activities of microfinance institutions will bring about sanity in that sector. It is also thought that a separate regulatory authority can be established through the act to supervise and monitor the activities of microfinance operators in Ghana to bring about sanity and ensure the safety of clients of the microfinance business.

10. Recommendations

10.1 Microfinance Schemes available in Ghana

It is envisaged that if a comprehensive regulatory framework (Microfinance Act) for all microfinance institutions is promulgated it will ensure that the operations and activities of microfinance institutions are legalized and conform to best practices in the microfinance sub sector. Although a single legal system for MFIs will force some NGOs out of their direct microfinance activities, it is believed that this will make microfinance institutions more professional and commercial thereby ensuring greater long term sustainability. The way forward towards harmonization of Microfinance Institutions should encompass the following measures: The researchers recommend the Promulgation of Microfinance Act to regulate the activities of all institutions which offer microfinance products and services. All microfinance programmes/funds geared towards poverty reduction and development must be channeled through one apex body. The promulgation and implementation of common standards for all microfinance institutions will ensure sanity in the operation of Microfinance in Ghana.

10.2 Microfinance Regulatory Framework in Ghana

All participants (100%) were aware of the tiered regulatory system that existed in the Microfinance sub sector of Ghana. An act must be passed to regulate the specific activity of microfinance in Ghana. The act shall establish one umbrella body (Apex body) which will be responsible for regulating, supervision, monitoring, controlling, training and capacity building for all Microfinance Institutions in Ghana. This will bring sanity and ensure standardization in the activities of microfinance activities in the country. Strict monitoring and supervision will ensure compliance and curtail the activities of unscrupulous microfinance providers.

10.3 Harmonization of Microfinance regulation in Ghana

There is the need for an umbrella body to regulate and monitor the activities of all institutions which offer Microfinance services and products. It will also ensure that best practices and set standards for all industry players. It is believed that one umbrella (apex body) regulating and supervising these institutions will bring standardization, efficiency and effectiveness. Common Regulatory standards for all microfinance institutions in Ghana will reduce the uncertainty in the sector thereby improving investment, outreach and accessibility of microfinance products and services. It is envisaged that these will ensure that common regulatory standards can be applied to all microfinance institutions. It is the belief of the researchers that harmonizing such schemes will accelerate poverty reduction and National development

10.4 Problems associated with Microfinance regulation in Ghana

There is an urgent need for the Bank of Ghana to increase its supervisory functions over the microfinance institutions in Ghana. An increased supervision will identify the institutions which are not complying with BOG directives. It is also recommended that the BOG cracks the whip on microfinance institutions which are engaging themselves in illegal and unauthorized activities by applying the appropriate sanctions. The researchers recommend a training centre for Microfinance institutions to be established where staff and microfinance practitioners can be trained to build up their capacity and competence.

References

[1] Asiama Johnson P. (2007), Microfinance in Ghana: An Overview

[2] ARB APEX Bank Regulations, 2006 (LI1825)

[3] Banking Act, 2004 (Act 673),

[4] Bank of Ghana, (2011) Notices to Banks, Non-Bank Financial Institutions and the General Public (BG/GOV/SEC/2011/04)

[5] Companies Code 1963 (Act 179)

[6] Mahama D. J (President, Ghana) State of the Nation Address, 2015

[7] Hoff K., and Stiglitz J.E. (1990), Imperfect information and rural credit markets: Puzzles and Policy perspective, The World Bank Economic Review 4, 235.251

[8] Hulme, D. and Mosley, P. (1996), Microfinance against poverty, Vol 1, Routledge, London

[9] International Monetary Fund (2005), Microfinance: A view from the fund

[10] Mokaddem L. (2009) Concept note on Microfinance-scaling up in Africa: Challenges ahead and way forward, African Development Bank (AfDB)

[11] Otero M. (1999), ‘Bringing development Bank into Microfinance’, Journal of Microfinance, Vol 1, No 1, 8-19

[12] Rogaly, B. (1996) Microfinance evangelism destitute women and the hard selling of a new anti-poverty formula, Development in Practice, Vol 6, No2, 100-112

ISSN 2347-4289

[13] Schriener, M.and Colombet, H.H., (2001), 'From urban to rural: Lessons from Microfinance from Argentina', Development policy review, vol 19, No 3, 339-354

[14] Stefan Staschen (2003),' Regulatory Requirements for Microfinance: A Comparison of Legal Frameworks in 11 Countries Worldwide', Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH Division 41 Economic Development and Employment Promotion

[15] Moneylenders Ordinance 1957

[16] Non-bank Financial Institutions Act, 2008 (Act 774)

[17] William F. Steel and David O. Andah (2003) 'Rural and Microfinance regulation in Ghana: Implications for Development and Performance of the Industry', Africa Region working paper series No. 49