

Responsible Finance Market Overview: Ghana



Microfinance Sector in Ghana

The microfinance sector in Ghana has experienced significant growth in the number of players, assets, deposits and outlets due in part to recent reforms to the financial sector. The sector is now served by a diverse group of service providers offering a wide range of financial products and services. The market consists predominantly of savings rather than credit-led institutions, with a few large players dominating the sector. The **Bank of Ghana (BoG)** regulates the sector under a regulatory framework called the Operating Rules and Guidelines for Microfinance Institutions in Ghana (Notice No. BG/GOV/SEC/2011/04 issued in July 2011). The Guidelines establish four tiers of financial intermediaries and its regulation.

Tier 1: Rural and Community Banks, Finance Houses and Savings and Loans Companies

Tier 2: Susu companies, known as Microfinance Companies; deposit-taking, for-profit financial NGOs and credit unions

Tier 3: Money lenders and non-deposit-taking financial NGOs

Tier 4 - Individual susu collectors (informal saving groups) and individual money lenders

Institutions report to their respective apexes, which provide information to the BoG. Periodic reporting is required of all.

The Guidelines encourage individuals and entities in Tiers 3 and 4 to belong to an apex association. The sector currently has seven apex bodies, which operate under a larger umbrella called the Ghana Microfinance Institutions Network (GHAMFIN).

Both the BoG and the **Ministry of Finance and Economic Planning (MoFEP)** have demonstrated efforts to promote a responsible financial sector. In 2008, the BoG instituted the **Borrowers and Lenders Act** to

improve standards for disclosure of information and prohibit abusive credit practices. The BoG also established the **Investigation and Consumer Reporting Office (ICRO)** to investigate and resolve customer complaints and ensure financial service providers operate transparently. In 2012, the MoFEP issued a **Financial Sector Strategic Plan (FINSSP II)** which addressed some of the challenges facing microfinance institutions (i.e. weak institutional capacities, weak ownership and governance, poor financial sustainability and subsidized government programs). The plan explicitly states the government's commitment to support GHAMFIN in developing and implementing industry standards; building MFIs' capacities in social performance management; executing industry reporting and benchmarking; and promoting information exchange.

Sector Issues for Responsible Finance

- › No clear rule exists for how to calculate an MFI's effective interest rate, making compliance with price transparency guidelines unachievable.
- › Over 40% of clients are illiterate; those that can read report that they do not always understand pricing information.
- › Market outreach and portfolio performance data is scarce and fragmented due to the lack of a unified system for consolidated financial reporting for MFIs.
- › Few MFIs use the existing credit bureau.
- › No comprehensive law on consumer protection exists.
- › An industry-wide code of conduct that incorporates global standards for consumer protection does not exist.

- › Client recourse systems are limited. When such systems do exist, clients are rarely familiar with them.
- › Over-indebtedness, fueled by multiple borrowing at high interest rates and inappropriate product design, is a growing risk as competition intensifies.
- › Rules to govern MFIs' debt recovery practices do not exist.
- › The Credit Reporting Act addresses the confidentiality of client data but lacks a mechanism to enforce compliance.

Ghana Microfinance Institutions Network (GHAMFIN)

GHAMFIN is a national-level microfinance association whose membership comprises the seven apex bodies representing the various types of institutional service providers operating in the market. The apexes form the GHAMFIN governing Council.

There is broad-based support for GHAMFIN to play a facilitation and advocacy role for the industry. However, GHAMFIN is not recognized explicitly in the microfinance Guidelines, which has made defining its role vis-à-vis the apex institutions in industry reporting and transparency challenging.

GHAMFIN's Presence in the Sector

	Microfinance Sector (June 2012)	GHAMFIN Members (June 2012)	
Number of legally registered MFIs	1,630	1,314	Membership Ratio (Number of members vs. number eligible for membership) 80.6%
Number of persons benefiting from MFI services (members, borrowers, or depositors)	N/A	6,121,451 Depositors	
Market penetration rate (for total population)	N/A	25.7%	Member Coverage (2011) (Number of members' clients vs. number of clients in the market) 30%

These figures were all provided by GHAMFIN.

GHAMFIN's Responsible Finance Agenda

Objective: Strengthen the association's ability to promote better consumer protection practices and contribute to transparency in the sector through improved industry-wide performance monitoring and benchmarking reporting.

Steps toward better consumer protection practices

- ✓ Conducted consumer protection assessments of two financial NGOs in 2011 in partnership with the **Smart Campaign**
- ✓ Led consumer protection awareness workshops for 72 MFIs in 2011
- ✓ Encouraged close to 50 Ghanaian MFIs to endorse the Smart Campaign

Priority Actions

- » Organize of a workshop to discuss a unified national code of conduct for the industry
- » Carry out trainings for members on the Code of Conduct
- » Conduct an awareness-raising campaign for clients around consumer protection

Steps toward more transparent markets

- ✓ Published a benchmarking report in 2013 based on 2004, 2007, and 2010 performance data for a self-selected sample of rural microfinance institutions
- ✓ Ghana Association of Microfinance Companies (GAMC), one of the apex organizations and a GHAMFIN member, piloted a bio-metric credit information system for its members, which which may prove to be a model for the broader industry

Priority Actions

- » Organize a national workshop to discuss existing MFI reporting requirements and advocate for a minimum reporting requirement
- » Require minimum financial and social reporting from all of members
- » Install a system to capture financial and social performance data from members on a semi-annual basis (at a minimum)
- » Establish a process to validate and regularly publish data in a timely manner