GHAMFIN Newsletter

ISSUE 01 April, 2022

The Case for a National Microfinance Policy in Ghana

Yaw Gyamfi (GHAMFIN) &
Marianne Helene GIZ GH- Development Worker

Beside allowing for the emergence of the regulatory environment specifically for MFI and enabling key actors to monitor the development of the industry, a policy is needed to re-align MF activities with the country's development objectives. In the absence of clear strategic guidance, most actors are behaving purely like private MFIs, providing services reminiscent to traditional commercial banks and thus leaving a huge part of the low income and poor population out.

However, for the sector to realize its poverty-alleviating potential and reach out to social groups traditionally excluded from the financial system, microfinance products should be tailored to the needs of these target populations. Therefore, there is a clear need for a policy to reemphasize the social mission of the industry while creating the conditions for its supervisory framework to function and for the entire sector to flourish.

By now, many other developing countries aiming to harness the benefits of microfinance have issued a dedicated policy document to guide and enhance this sector's development. In each case, issuing a MF policy was motivated by the acknowledgment that MF is a main engine of financial inclusion supporting employment creation and poverty reduction, which requires the provision of the appropriate institutional impulses and means for it to effectively contribute to inclusive economic growth.

In Africa, examples include Tanzania, who adopted its first MF policy as early as 2000 to provide guidance for the participation of various actors in MF. In 2017, following-up with the sector's growth and increased complexity, the policy was revised to address challenges such as insufficient coordination and outreach to non-urban populations. Tanzania's new

> **National Microfinance Policy" aims at creating an enabling environment expected to "build impetus to further growth of the microfinance sub sector,**

The Case for a National Microfinance Policy in Ghana

ultimately supporting "the country's transition towards becoming a middle-income nation with a comprehensive, resilient and progressive financial sector".

A similar logic was followed by Malawi, where a "Microfinance Policy and Action Plan" was issued in 2002 to create the necessary legal and policy environment to promote MF and to improve the coordination and practices of stakeholders.

Likewise, in Nigeria, a "Microfinance Policy Framework" was issued in 2005 to enhance the provision of diversified financial services to low-income groups and to provide the appropriate machinery for tracking the activities of MF stakeholders.

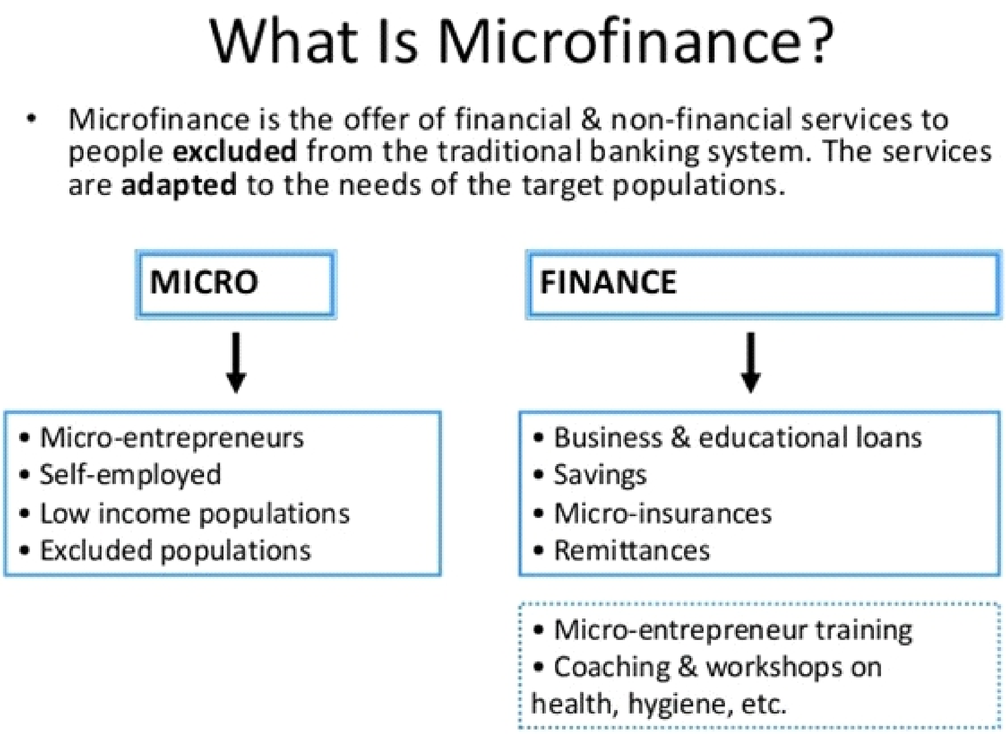
In 2011, this policy was fine-tuned to address identified weaknesses similar to those prevailing in Ghana's MF sector today, such as weak institutional capacity, weak capital base, large unserved rural market, lack of technological platform, low level of financial literacy and the multiplicity of uncoordinated interests and support initiatives.

Considering the need for a dedicated microfinance policy to guide and support the further development of the Ghanaian MFI sector, this proposal calls for the development of a "National Microfinance Policy for Ghana". This document would lay out Ghana's vision for the microfinance sector and establish a dedicated governance framework for its implementation.

This is in line with the government's objectives, in particular the implementation of the National Financial Inclusion and Development Strategy (NFIDS). The NFIDS, adopted in 2018, aims to address the fundamental barriers preventing the underserved population from accessing financial products and services that would enable them to generate income, build assets, manage financial risks, and become economically empowered. Specifically, the objective is to bring the share of Ghana's adult population having access to formal financial services from 58% in 2015 to 85% by 2023.

The NFIDS acknowledges that NBFIs also play a key role thereby, as they account for 18% of all assets and have been a large contributor to financial inclusion in Ghana, which improved from 41% to 58% between 2010 and 2015 (NFIDS 2018). The number of NBFIs has rapidly expanded although a sizable share became insolvent or undercapitalized and more than 400 licenses were revoked by BoG in 2019 in the context of an important clean-up exercise within Ghana's entire financial system (BoG 2019 Annual Report). This process, although necessary to sanitize the sector, affected public perception of microfinance and further eroded people's trust in financial institutions.

In this context and given the government's current developmental objectives, there is a strong momentum for issuing a National Microfinance Policy which should give a new, better targeted and well-regulated impetus to the sector.



GHANA'S MICROFINANCE SECTOR: A SLEEPING GIANT

Roderick Okoampah Ayeh
Independent Microfinance Consultant

Some critical happenings recorded in the Ghanaian microfinance sector over the past 3 years seem to have slowed down the momentum which was driving the outreach of Ghana's microfinance sector.

Many people in Ghana now have some negative view about microfinance companies. Some of the notable events actually affected the way people perceived microfinance in Ghana. For instance, the news about the inability of some known microfinance companies, clubs, etc., in honouring contractual agreements with their depositors or customers gave microfinance in Ghana a very bad name.

The aftermath of these developments is the several 'blame games" as to whose role was it to prevent such happenings.
Looking at Ghana's microfinance industry from the point of outreach, sustainability and impact, it is easier to conclude that, microfinance in Ghana is at a crossroad.

The sector is at the crossroad of regulations. Policy watchers are still wondering whether to regulate MFIs the same way as traditional banks are regulated or whether there must be a special vehicle for the purpose of regulating MFIs.

Microfinance as a business entity is well defined per Ghana's microfinance classification. The sector is clear in terms of what operationally qualifiers an organization as a microfinance institution(MFI). However, the challenge is that there is confusion about what microfinance really stand for especially for most people involved in managing and delivery microfinance programmes. To many people, microfinance is just another financial institutions delivery services to people and not necessary low income or poor clients.

Clearly, Ghana needs an effective regulatory framework to direct the operations of MFIs. Although, there has been some notable developments in the area of microfinance regulation in Ghana, there are still many grey areas that must be made very clear. A critical look at current events will point to the fact that the momentum with which microfinance companies where springing up has drastically slowed down. The slowdown in the development of microfinance operations in Ghana is not because the sector has reached the saturation stage as per microfinance market development theories.

The evidence on the ground shows clearly that, we are still at the market development stage and not anywhere near the saturation stage.

So technically we must see more activities within the microfinance sector. However, this is not the case. The main reason for the slowdown in the establishing of new MFIs can be attributed to the effect of regulation barriers which have been strengthened.

Actually, regulation is controlling the entrance of new players. So it is not easy for new MFIs to go past the current entry barriers. Apart from regulation, trust has also become a barrier confronting the sector. Many people are skeptical of our MFIs and their owners. Clients and potential clients see MFIs as quick source for their loan needs. However, many people with excess cash looking for financial institutions to safely invest this cash, will first look past a MFI. This has resulted in the difficulties of MFIs in raising investments from the public.

Ghana's microfinance industry must be redefined. The redefinition should encompass the entire regulatory structure at the national level. Once the right approach to regulation is achieved, then technically, the way microfinance is organized and practiced in Ghana will automatically be defined. The critical reformations that should be looked at in the microfinance sector should be addressed in the following light:

Establishment of one microfinance Apex Body.

The current multiplication of Apex Bodies for microfinance institutions must be reviewed. There are so many microfinance apex bodies undertaken the same or similar activities. Examples of apex bodies within the microfinance sector are: Ghana Co-operative Credit Unions Association (GCCUA), Ghana Co-Operative Susu Collectors' Association (GCSCA), Association Of Financial NGOS, Ghana Cooperative Council (GCC), Ghana Microfinance Institution Network (GHAMFIN), ARB Apex Bank and Money Lenders Association of Ghana.

In the case of the ARB Apex Bank, it was set up to directly provide banking and other support services to rural and Community banks. Rural banks were created to address rural financial intermediation challenges within the Ghanaian economy. Apart from the Apex Bank which has the mandate over rural banks, most of the other Apex bodies have microfinance institutions in tier 2, 3 and 4. These tiers of MFIs are almost the same in terms of their operations. Per Ghana's microfinance regulatory definition, microfinance companies can be categorized into deposit or non-deposit taken institutions. So the critical factor beyond the nature of type of ownership which separates microfinance institutions in tiers 2 to 4 is whether they take or do not take deposits. This therefore implies that, by nature and operations, all these tiers of MFIs have the same targets; that is poor and low income clients. The other common feature is that these companies do not also have location limitations as compared with rural banks. In summary, MFIs in tiers 2,3 and 4 are typical microfinance institutions with similar operational modalities.

Creating several Apex Bodies, therefore, implies that the microfinance space will indirectly be controlled by different bodies who are actually seeking to achieve the same thing on the market. In terms of financial management, it is more expensive for the economy to run different Apex bodies compared with having one stronger Apex body that will serve as a one stop Apex body for all tiers 2-4 Microfinance companies.

The advantages of having a unified Apex microfinance body is that, it will reduce, if not avoid the multiplication of programs targeting the same industry. It will also provide economy of scale advantage which can be leveraged upon by the Apex bodies for better output. A unified Apex body will create the needed environment for all its members to support their growth instead of each apex body looking just at the progress of their members. It will also provide a faster possibility of the nation strengthening its microfinance operations because there will not be a case of a weaker apex bodies lagging in the effort to improve the overall performance of microfinance actors in Ghana.

The efforts of the Apexes currently operating in Ghana must be consolidated. In this design, all the other tiers can be established as departments within the larger Microfinance Apex Body.
The sector must quickly find ways around this so as to reduce the possibility of the stronger apex bodies developing a 'superiority complex" over the other apexes which will not help create the outcome needed. There is a need for one stronger voice to quickly stir up public confidence to revive microfinance operations.

CONCLUSION

Regulating microfinance does not come easy. Regulation must be able to control the way microfinance is done but must also propel the growth of microfinance. The sector must be structured from the Apexes in a way to ensure that we have a consolidate front to drive the impact that is expected from employing effective microfinance methodologies.

The good thing about the case of Ghana is that, successive Governments have demonstrated their support for the microfinance industry. What has been the challenge is that, most approaches or drivers used for microfinance programs are mixed with political objectives which have weaken the gains expected from government microfinance programs. Ghana must go over the current challenges facing microfinance so that microfinance can stand for what it must stand for in the area of addressing poverty and making more poor people economically active. ■

COVID – 19 AND DIGITISATION

By Yaw Gyamfi (ED -GHAMFIN)

In December 2019 we witnessed a gradual yet to be a contagious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) known as Coronavirus (COVID-19) that spread from China to other parts of the world within a wake of time. The period when Ghana was on the path to full recovery after the financial sector clean-up exercise that heavily hit the microfinance landscape.

Prudent measures were put in place by countries not to only save lives but to ensure that economic gains achieved over the years are not completely eroded, of which Ghana is of no exception. The lockdown of Greater Accra and Kumasi regions, closure of our borders (Land, sea, and air), mandatory quarantines for travelers, Covid-19 fund to help the needy, Stimulus Package for Businesses among others were some measures put in place by the country to mitigate the situation. Businesses and clients of the sector needed to appreciate unfolding events to allow them to undertake pragmatic and strategic decisions in their line of activities.

The pandemic caused a big disruption in all aspects of lives especially on businesses and households of Ghanaians and people all over the world among others.

During the period all forms and types of businesses across every country in the world have had to in one way or the other close their doors to customers and employees. This was sharply accompanied by decrease in firms' revenues and households' incomes. It also presented the global financial system with its largest stress event since the global financial crisis.

For financial institutions across the globe, the COVID-19 pandemic has proved to be a real-world test of operational resilience. Although the initial economic shock caused by the Covid-19 pandemic primarily hit the real economy, the economic stress inevitably has been seen in the banking sector in Ghana and else where.

Those in charge of risk, compliance and operational functions have had to rapidly adapt their business continuity and resilience frameworks in response to new risks or changes in existing risks that occurred in different parts of their organization because of the pandemic. This, in step with widespread regulatory reforms and a heightened focus on strengthening operational resilience within the financial sector – which came into play even prior to the pandemic in Ghana – has put increased pressure on financial institutions especially the non-banks and other lower tier institutions.

COVID-19 has caused a global collapse in activity and loss of jobs that probably has never been experienced in its scale and speed.

Although faced by operational challenges of their own, including switching within just a few days from on-site to remote working, some banks and non-banks increased their lending activities to provide companies and households with funding largely based on the type of operation models adopted.

The pandemic brought with it unintended consequences which were focal points to present the opportunity for lessons to be learnt and improve our business processes and resilience to meet today's challenges and future crises. The impact of the events of the COVID 19 cannot be erased from the history of both the clients and financial institutions in Ghana.

In recent times, it has become increasingly evident that the COVID-19 pandemic has not only

COVID – 19 AND DIGITISATION

fundamentally altered the modus operandi of a number of businesses but has also triggered the failure of many businesses around the globe. It has shaped the thinking around business processes and created a huge potential for digitization and innovation to add value to people and to contribute to financial services and products. It must be noted that the world's adoption of everything digital leapfrogged several years due to the Covid-19 pandemic.

Though technological innovations, digitization efforts, remote working, online skilling have been a part of the business ecosystem in recent years, the momentum received during the pandemic made them fundamental to a business' survival in the new normal. It was evident on the performance of some non-banks that have adopted the right technology for digitization of its processes cashed in with minimal challenges especially during lockdown period.

Some institutions that felt left behind are now in a rush to get it right, but cautions should be taken either to adopt the appropriate technology or learn from those who got it right. This would help Financial Institutions to shift customer service volumes from traditional channels to digital ones in other to make the right judgement. Financial Institutions are encouraged to factor the level of the clients preparedness into the digital decisions as the performance of end products of every innovation is dependent on the level of adaptability and usage.

NON-BANKS AND MFIS UNDERGO EMOTIONAL INTELLIGENCE TRAINING

Over one hundred participants from various financial institutions in Ghana have been taken through emotional intelligence training. The training was under an initiative called **FIRST+** (**F**inancial **I**nstitution **R**esilience and **S**trengthening).

FIRST+ works with Ghanaian financial institutions that are ready and committed to scaling Micro Small and Medium Enterprises (MSME) finance, inclusive of youth and women with a focus on the agricultural sector. The initiative makes use of international best-in-class expertise and practices tailored to the Ghanaian context to address challenges that are inhibiting, financial institutions' ability to increase their lending to micro and small businesses, who will, in turn, create and retain thousands of quality jobs in Ghana. FIRST+ is implemented by CapitalPlus Exchange (CapPlus) in collaboration with the Bank of Ghana and in partnership with the Mastercard Foundation and the Ghana Microfinance Institutions Network (GHAMFIN).

Participants were drawn from the savings and loans companies, credit unions, micro-credit institutions, micro-finance companies, rural and community banks, financial NGOs, and susu enterprises from all over the country and pieces of training held in the Greater Accra, at Sunlodge Hotel on February 17, 2022, and in Greater Kumasi at True Vein Hotel on February 24, 2022. The training looked at the 'Role of Emotional Intelligence in Loans Advancing and Recovery'

PONZI SCHEMES - WHAT ONE SHOULD KNOW BEFORE INVESTING.

What is a Ponzi scheme?

A Ponzi scheme is an investment fraud that involves the payment of purported returns to existing investors from funds contributed by new investors. It is believed in the success of a non-existent enterprise is fostered by the payment of quick returns to the first investors from money invested by later investors. Ponzi scheme organizers often solicit new investors by promising to invest funds in opportunities claimed to generate high returns with little or no risk. In many Ponzi schemes, the fraudsters focus on attracting new money to make promised payments to earlier-stage investors and to use for personal expenses, instead of engaging in any legitimate investment activity.

Why do Ponzi schemes collapse?

With little or no legitimate earnings, the schemes require a consistent flow of money from new investors to continue. Ponzi schemes tend to collapse when it becomes difficult to recruit new investors or when a large number of investors ask to cash out.

What are some Ponzi scheme “red flags”?

Many Ponzi schemes share common characteristics. Look for these warning signs:

- **High investment returns with little or no risk.**

Every investment carries some degree of risk, and investments yielding higher returns typically involve more risk. Be highly suspicious of any “guaranteed” investment opportunity.

- **Overly consistent returns.**

Investments tend to go up and down over time, especially those seeking high returns. Be suspect of an investment that continues to generate regular, positive returns regardless of overall market conditions.

- **Unregistered investments.**

Ponzi schemes typically involve investments that have not been registered with the SEC or with state regulators. Registration is important because it provides investors with access to key information about the company's management, products, services, and finances.

- **Unlicensed sellers.**

Federal and state securities laws require investment professionals and their firms to be licensed or registered. Most Ponzi schemes involve unlicensed individuals or unregistered firms.

- **Secretive and/or complex strategies.**

Avoiding investments, you don't understand or for which you can't get complete information is a good rule of thumb.

- **Issues with paperwork.**

Ignore excuses regarding why you can't review information about an investment in writing, and always read an investment's prospectus or disclosure statement carefully before you invest. Also, account statement errors may be a sign that funds are not being invested as promised

- **Difficulty receiving payments.**

Be suspicious if you don't receive a payment or have difficulty cashing out your investment. Keep in mind that Ponzi scheme promoters sometimes encourage participants to “roll over” promised payments by offering even higher investment returns

What steps can I take to avoid Ponzi schemes and other investment frauds?

Whether you're a first time investor or have been investing for many years, there are some basic questions you should always ask before you commit your hard earned money to an investment.

- Is the seller licensed?
- Is the investment registered?
- How do the risks compare with the potential rewards?
- Do I understand the investment?
- Where can I turn for help? (Security and Exchange Commission Ghana)

What are some of the similarities and differences between Ponzi and pyramid schemes?

Ponzi and pyramid schemes are closely related because they both involve paying long standing members with money from new participants, instead of actual profits from investing or selling products to the public. Here are some common differences:

►►►

	Pyramid Scheme	Ponzi Scheme
Typical"hook"	Earn high profits by making one payment and finding a set number of others to become distributors of a product. The scheme typically does not involve a genuine product. The purported product may not exist or it may only be "sold" within the pyramid scheme.	Earn high investment returns with little or no risk by simply handing over your money; the investment typically does not exist.
Payments/profits	Must recruit new distributors to receive payments.	No recruiting necessary to receive payments.
Interaction with original promoter	Sometimes none. New participants may enter scheme at a different level.	Promoter generally acts directly with all participants
Source of payments	From new participants always disclosed.	From new participants never disclosed
Collapse	Fast. An exponential increase in the number of participants is required at each level.	May be relatively slow if existing participants reinvest money

Author: US Security and Exchange Commission

NON-BANKS AND MFIS UNDERGO EMOTIONAL INTELLIGENCE TRAINING

Some of the participating companies were Sekyedumase rural bank, Juaben Rural Bank, Amansie west rural bank, Agogo Hospital Cooperative Credit Union, KSDA Credit Union, Sinapi Aba Savings and Loans, DAL Micro-credit Enterprise, Golden Foundation Microfinance and OSA micro-credit enterprise to mention but few.

Speaking at the open session held in Accra, Mr. Andrew Muriithi, Director, MSME Finance and Partnership reiterated the rationale behind this capacity building and underscored the need to build resilient financial institutions. The Executive Director of the Ghana Microfinance Institutions Network Mr. Yaw Gyamfi said the main objective of the training is to strengthen the emotional intelligence capacity of the members of GHAMFIN, so they remain driven and motivated individuals and emotionally intelligent enough to grant good loans and recover judiciously to help build a resilient financial ecosystem.

At the closing session in Kumasi, the training and programme director of Ghana Microfinance Institutions Network Mr. Edmund Benjamin Addy lauded the enthusiasm of the participants and urged them to apply what they have learned to loan advancing and recovery to help build resilient financial institutions.