Regulation, Supervision, and Access to Microfinance:
The Case of Ghana

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**Introduction**

**THE POPULATION** in Ghana is predominantly rural (63%) and poverty is a real phenomenon in the rural areas (Ghana Government 2003). Forty percent (40%) of Ghanaians are below the poverty line (Ghana Statistical Services 2002). Persons engaged in agriculture, the dominant economic activity in the rural areas, are the poorest among the economically active poor in the country. That notwithstanding, the poor need to access financial services (credit, savings facilities, money transfer insurance) that can significantly improve their economic activities and better their lives. These services are supplied by the various financial institutions operating within a regulatory framework. The regulatory framework of the financial institutions in Ghana creates a tiered system of formal, semi-formal and informal institutions. These institutions are variously regulated and supervised to reduce potential risk to the system. Whilst some of the regulatory and supervisory measures enable the provision of financial services to the poor, others limit access to these services.

This paper looks at some of the various regulatory and supervisory measures that affect access of the poor to financial services in Ghana.

**Structure of Ghana’s Financial Institutions**

**THE FORMAL INSTITUTIONS** are banks, including the Rural and Community Banks (RCBs), and non-bank financial institutions, including the Savings and Loans Companies (S&Ls). These formal institutions are licensed and supervised by the Bank of Ghana (BoG), the Central Bank.

The semi-formal financial institutions are statutory bodies engaged in financial services but not regulated by the BoG. These are the Credit Unions which are registered with the Registrar of Cooperatives and the Non-Governmental Organization (NGOs) which register with the Registrar of Companies as companies limited by guarantee (not for profit).

The informals of particular importance are the Susu Collectors who are daily itinerant savings collectors. These do not come under any regulation. Of recent times, some District Assemblies (local governments) are registering them for taxation purposes only. A group of them have formed a cooperative association. There are also traditional money lenders, who fall under an anachronistic law that is widely ignored, as well as a variety of savings and credit associations.

The 120 RCBs are community owned unit banks established in the rural areas and operating through their networks of agencies. The system was started in 1976 under an existing banking act to provide access for the rural community to the banking system in
a less intimidating way. In the early 1980s, a large number of RCBs were licensed to enable the peasant cocoa farmers to have convenient access to banks in the rural areas to encash special checks introduced at that time to pay for cocoa purchases. This enabled the farmers to open savings accounts and cash their checks conveniently and at low transaction costs, as compared to doing business in urban towns which may be a long traveling distance away. Regulatory requirements were relaxed to allow the RCBs to run temporary offices in the open at buying centers where local farmers send their produce for sale to buying agents. Some of the commercial banks have extensive networks in the rural areas to facilitate access to financial services. But the rigidity of their procedures does not meet the needs of the poor properly.

The 11 Savings and Loans companies are urban based and provide limited banking services. Some of them have developed products to serve the micro and small scale enterprises in urban areas. They provide an avenue for NGOs and money lending operations to become formally licensed to take savings from the public.

Even though the RCBs operate in all ten Administrative Regions, the three northern savanna regions together are the least served by the RCBs. These regions are the poorest in the country, with rather low population density. A relatively larger proportion of Non-Governmental Organizations (NGOs) that offer microcredit operate in these regions. Many of these NGOs with microfinance units are multi-purpose or serve primarily humanitarian objectives, whilst others are financial NGOs (FNGOs) that treat microfinance as their core business. The unfortunate aspect of the NGOs’ operation is that they can legally only provide credit services. Since they are not licensed by BoG and are not member-based associations, they can only facilitate savings mobilization among their clients for the rural banks.

On the other hand, the ubiquitous Susu Collector provides an opportunity for the poor to save for at least one month at a time. The business of a Susu Collector is to go round to his clients to collect their predetermined daily savings. Susu collectors are mostly individuals, but some groups or “susu clubs” use a similar methodology, often on a weekly basis. Their clients are generally traders, mainly women selling in the markets, artisans and their apprentices, salary workers, etc. The savings are collected daily and the amounts saved are returned to the saver at the end of the month, less a day’s collection as commission. Periodically the Susu Collector may advance some loans to his clients, but the amounts are no more than the total to be collected in a month. The daily collection may be as low as 20 cents (US). The Susu Collectors operate both in the urban and rural areas. It is estimated that there are 4,000 collectors with about 1,200,000 clients (Haack 2003).

The 250 Credit Unions are cooperative thrift societies which are established in both rural and urban communities and work places. A credit union normally provides intermediation only to
its members, although some are looking to provide financial services more widely in their communities.

These various financial institutions create a continuum of microfinance services with a variety of products available to the urban and rural productive poor.

**Regulatory and Apex Structures**

All of these institutions are subject to regulations of all sorts, ranging from prudential regulation for deposit-taking institutions to ensure the safety of depositors’ money to entry requirements for membership in savings and credit associations. The Bank of Ghana is the regulatory and supervisory authority for the formal institutions. Its regulatory process is based on the type of institution rather than the type of transaction. Microfinance portfolios are not tested as such at commercial banks. It is statutorily required to conduct, every year, at least one on-site examination of each of the institutions it licenses – i.e., all the banks, both commercial and rural, the S&Ls and the other listed non-bank financial institutions. The commercial banks are fully and systematically covered. Much as the BoG tries to meet this obligation for the RCBs, its efforts are thwarted by limited resources relative to the number of institutions and their geographic spread, and the frequency of unplanned special investigations. Indeed with the RCBs it is not uncommon for the BoG to take over the management for a period, and in some cases even the Board, as part of its supervisory responsibilities. These tie down BoG staff. Whilst in 2003 only one RCB was not examined, in 2004 eleven RCBs were left out because one of the large non-bank financial institutions was in serious breach and Banking Supervision Department efforts had to be directed to that institution. The Banking Supervision Department (BSD) was also not able to cover all the S&Ls in 2004.

The ARB Apex Bank, promoted by the Association of Rural Banks (ARB) and owned by the RCBs, was licensed in 2001 to perform a number of common apex functions such as promotion, check clearing, specie movement, treasury management, training, and product development. In effect, the Apex Bank plays the role of a “Head Office” for a network of affiliated banks – except that in this case, the affiliates own the central agency. It is expected soon to take a larger role in front-line inspection of the RCBs, which will enable the BoG to concentrate more efficiently on supervision. For this to take off effectively, the ARB Apex Bank will need external funding for start-up costs to engage and train a large number of specialized staff. The intervention of the ARB Apex Bank is gradually improving the operations of the RCBs.

The Credit Unions in 1968 formed the Ghana Cooperative Credit Unions Association (CUA) as their apex body to undertake promotion and self-regulation of credit unions. In conjunction with the Department of Cooperatives, CUA audits the constituent
Credit unions annually. Unlike the ARB Apex Bank, CUA regulates the interest rates that its constituent credit unions pay on members' savings and charge on loans – to some extent reflecting the original welfare orientation of the credit unions. It runs a Central Finance Facility which members contribute into and borrow from to on-lend to their members. This enables the Credit Unions in predominantly poor areas to access additional loan funds to service the needs of their members. Some “village banks” that have been promoted by NGOs in the country are transforming into Credit Unions by adopting the management principles and undergoing training before being accepted as members of CUA and registered with the Registrar of Cooperatives. CUA also has a credit insurance product which pays off outstanding loan balances in the event of a member's death, as well as a life insurance product linked to the amount of savings. These alleviate part of the financial stress poor families experience in such events.

Ghana Cooperative Susu Collectors' Association (GCSCA) was formed at the initiative of some Susu Collectors to upgrade and raise the image of their business through self-regulatory measures. Unlike CUA, the GCSCA is a purely voluntary organization with four zonal offices that deal directly with collectors at district levels. In part because of its strict eligibility requirements, the majority of Susu Collectors are not members of this association. To raise the confidence of poor clients to save with their members, GCSCA requires an initial deposit from members which funds an insurance scheme to ensure the repayment of collections should the collector die or abscond, the latter being an extremely rare occurrence. It has developed a Code of Ethics for its members, requires an apprenticeship period, provides training in basic book-keeping, and identifies members by wearing uniforms. All these are aimed at building stronger confidence in the poor to save. In 2004 the 800 members were collecting a total of US$2.4 million per month as savings from the poor.

The financial NGOs are in the process of forming their own apex association under the facilitation of the Ghana Microfinance Institutions Network (GHAMFIN). GHAMFIN is the umbrella advocacy association of all microfinance institutions, with the association for each category represented on its Board. Since 2004 it has initiated a Performance Monitoring and Benchmarking (PMB) scheme for all categories of microfinance institutions in the country. Using the Microfinance Information eXchange (MIX) system, it carried out a pilot analysis with some RCBs, S&Ls and financial NGOs. The PMB provides MFI s with benchmarked performance data that can help them to plan better for improving institutional performance and outreach to the poor. It is planned to include Credit Unions and the Susu Collectors using customized data collection tools. The PMB is also expected to place MFIs in a better position to access wholesale funds for on-lending to their clients. As of now, none of the financial NGOs is able to borrow from the local money market.
**Extent of Regulation**

**THERE IS NO LAW** which subjects NGOs to external regulation. However, the Ghana Constitution empowers BoG “to operate a banking and credit system to promote the economic development of Ghana” (Republic of Ghana 1992). As long as NGOs do not mobilize savings from the public, their credit operations are of limited concern to BoG. Finance Houses which provide credit only are regulated under the non bank financial institutions law. Although Susu Collectors mobilize savings from the public, risks are limited by the small amounts with any individual collectors and their normal methodology of holding deposits in a bank account, so BoG has shown very little interest in trying to regulate such informal activities. What NGOs and Susu Collectors have in common operationally is that they are purely microfinance institutions and their direct impact on the financial system that BoG oversees is not considered substantial enough for the BoG to monitor them directly. This gives these microfinance institutions opportunities to innovate and produce a variety of products to meet the needs of the poor.

The financial NGOs could potentially transform into Savings and Loans companies to strengthen their operations by mobilizing savings from the public. The obstacle to this, however, is the stiff minimum paid up capital of about USD 1.7 million, which none of the local financial NGOs can raise locally. The only one which has transformed (licensed in 2004) was capitalized by international NGOs. Women’s World Banking, an NGO which was collecting savings before the Non-bank Financial Institutions Law was promulgated, transformed at less stringent entry requirements when the law became effective in 1993. As at end of 2004, all the Savings and Loans Companies – except three which access foreign capital had not met the current minimum capital requirement. BoG has sent a strong signal to them to comply else their licenses will be withdrawn. Whether this will be effective is yet to be seen, but S&Ls are searching for additional capital. Two have since met the requirements.

**Issues in Regulating and Developing RCBs**

**ENTRY REQUIREMENTS** for either licensing or membership are normally set high in order to maintain high standards, which new entrants are expected to maintain. Although the BoG has exercised considerable restraint in setting the required capital for the RCBs, that cannot be said of the S&Ls, which had their required capital raised fifteen-fold (by ten times in dollar terms) between 2000 and 2003. In part a response to weak performance by many existing S&Ls, this increase has limited the capacity of local investors to support new S&Ls. The new S&Ls
licensed since 2000 have had substantial external shareholding. The increase in minimum capital for the S&Ls has limited the growth of the provision of financial services to the urban poor.

In this context, it is not surprising that the RCBs are seeking permission from the BoG to enable them to provide financial services to the urban poor who cannot meet the minimum requirements for opening accounts in the commercial banks. BoG’s reluctance to accede to the request is based on the rationale that RCBs were created mainly to serve rural communities and to forestall the tendency of some RCB managers to shift their focus and even offices out of the rural areas to urban centers.

As the original promoter of the rural banking system, BoG was in a conflict of interest position as the supervisor of RCBs. This made the BoG behave paternalistically towards the RCBs with respect to enforcing regulatory directives. This situation led to insolvency at some of the RCBs and an inability to pay deposit withdrawals. A story is told of a farmer who went to one of the better run banks to withdraw his savings only to immediately pay it back, having satisfied himself of the bank’s liquidity. Together with inflation rates well above interest rates during the 1980s, this situation put both the savings of poor farmers and the capitalization of the RCBs at risk.

Strategies the BoG took to strengthen the RCBs included raising the primary and secondary reserve requirements to 62% and classifying the RCBs in terms of capital adequacy, to limit the share of their assets in loans. RCBs which met the Capital Adequacy Ratio (CAR) of 6% (the same as for the commercial banks) were classified as Satisfactory and those below as Mediocre, while those that were insolvent or bankrupt were classified as Distressed (Table 1). Eventually the distressed RCBs were delicensed after the BoG had paid depositors out of its own resources. A third category of Unsatisfactory banks with CAR of zero or negative has since been introduced.

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>2001</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory</td>
<td>52</td>
<td>87</td>
<td>99</td>
<td>98</td>
</tr>
<tr>
<td>Mediocre</td>
<td>58</td>
<td>27</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Unsatisfactory*</td>
<td>23</td>
<td>-</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td>Newly Licensed (unexamined)</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>133</td>
<td>115</td>
<td>115</td>
<td>120</td>
</tr>
</tbody>
</table>

Source: Steel and Andah 2003 and Bank of Ghana Reports. *Distressed (insolvent)

It was expected that an earlier threat to delicense would get some of the weak RCBs to consolidate, but that did not occur. Obviously, the delicensing of 23 distressed banks put severe stress on the ability of farmers, micro entrepreneurs and even
civil servants in those areas to access formal financial services. It also deprived the micro entrepreneurs within these areas from access to the government’s microfinance programs, e.g. under its Social Investment Fund (SIF) and the Village Infrastructure Project (now Community Based Rural Development Project [CBRDP]), in which the RCBs participate as intermediary institutions. As a counter measure, new RCBs were licensed to operate in some of these areas after meeting more stringent entry requirements, including minimum paid up capital of USD56,000. As at the end of December 2004, 13 (11%) of the RCBs were operating with capital below the regulatory minimum, while 14 RCBs were considered Unsatisfactory. These are regulatory issues that the BoG must accommodate to enable some of the rural banks to continue providing services to the poor in rural areas.

Raising the secondary liquidity reserve requirement (investment in blue chip Government Bonds and Bills) in 1996 from 20% to 52% meant that, with the primary reserves of 10%, the RCBs had only 38% of the total savings they mobilized available for lending. Whilst some considered this directive to be unduly restrictive to the Satisfactory RCBs, in practice many RCBs maintained secondary reserves far in excess of the regulatory minimum to take advantage of relatively high interest rates on Treasury Bills throughout the 1990s. As a result, the share of RCBs in total banking industry investments (including T-bills and other approved short-term bills) has risen from about 3.4% in 1998 to 7.6% in 2004, despite BoG’s lowering of the secondary reserve requirement to 43% in 2002. In 2004 these investment portfolios have exceeded the loan portfolios by 27%.

Poverty Outreach

AMONG THE MICROFINANCE INSTITUTIONS, the RCBs stand out as the largest player in terms of geographical coverage, depth of outreach and number of products. Table 2 shows that the poverty index of clients of RCBs are lower than those of the financial NGOs in the southern parts of the country (Coastal and Middle zones). In the northern zone, the depths of outreach are about the same. Because of its full intermediating capacity and its structure, especially now that the ARB Apex has been formed to link and assist the RCBs, the rural banking system will continue to be the major provider of financial services for the poor. At present they provide facilities for savings, loans, investment in Treasury Bills and money transfers. Some are commissioned agents for micro-insurance.
Table 2: **POVERTY INDEX OF CLIENTS OF RCBs AND FNGOs**

<table>
<thead>
<tr>
<th>Zone</th>
<th>Rural Banks</th>
<th>FNGOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coastal</td>
<td>0.56</td>
<td>0.99</td>
</tr>
<tr>
<td>Middle</td>
<td>0.51</td>
<td>0.69</td>
</tr>
<tr>
<td>Northern</td>
<td>-1.16</td>
<td>-1.19</td>
</tr>
</tbody>
</table>

Nationally, the poorest quintile falls below -0.76, the highest quintile above +0.90.

**Conclusion**

**IT IS OBSERVED** that the BoG has been using – and restraining – its regulatory powers judiciously, albeit under limited capacity, to enhance the access of the poor to financial services. This was originally done by adapting the regulations for an existing banking law to introduce the rural banking system. It has carefully chosen not to bring under its direct supervision the Credit Unions, the financial NGOs and the Susu Collectors, thus enabling these institutions to be innovative in developing microfinance products that can serve clients not reached directly by the RCBs.

On the other hand, the earlier laxity in enforcing the regulations for the rural banks led to a number of them closing down. Similarly, low barriers to entry of S&Ls without strong supervision resulted in a poorly performing sub-sector. Subsequent tightening of regulations and enforcement has led to a stronger and more sustainable rural banking system and injection of capital into some S&Ls to serve the poor.

There is the need to consider a second tier of savings and loans companies to meet the needs of the urban poor and the less banked areas in the north. The setting up of the ARB Apex Bank has the benefits of reducing the non-regulatory functions of the BoG and the strengthening of the rural banking system in a more focused way. To maintain an appropriate balance between regulation and forbearance, BoG should continue to observe the operations of the microfinance institutions beyond its regulatory border to prevent abuses and judge when regulations need to be tightened, relaxed, or extended.
References


