



Republic of Ghana

GHANA MICROFINANCE POLICY (GHAMP)



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TABLE OF CONTENTS

	Page
ABBREVIATIONS AND ACRONYMS -----	<i>iv</i>
PREAMBLE -----	1
1.0 BACKGROUND -----	2
1.1 Economic Profile on Ghana -----	2
1.2 Evolution of the Microfinance Sub-Sector-----	2
1.3 Microfinance in the Context of Development -----	3
1.4 Microfinance and Poverty Reduction in Ghana -----	4
2.0 KEY STAKEHOLDERS OF MICROFINANCE -----	66
2.1 Main Microfinance Practitioners -----	66
2.4 Supporting Institutions -----	66
2.5 Government of Ghana Institutions -----	66
3.0 POLICY RATIONALE AND CHALLENGES FACING THE SUB-SECTOR <u>77</u>	
3.1 The Rationale for a Microfinance Policy-----	<u>77</u>
3.2 Challenges Facing the Sub-Sector-----	<u>77</u>
3.2.1 Institutional Arrangements-----	<u>77</u>
3.2.2 Capacity Building-----	<u>88</u>
3.2.3 Credit Delivery and Management-----	<u>88</u>
3.2.4 Targeting the Vulnerable and the Marginalized-----	<u>99</u>
3.2.5 Data/Information Gathering and Dissemination -----	<u>99</u>
3.2.6 Regulation and Supervision-----	<u>104</u>
3.2.7 Consumer Protection -----	<u>104</u>
3.2.8 Collaboration and Coordination -----	<u>104</u>
3.2.9 Research, Monitoring and Evaluation -----	<u>111</u>
4.0 POLICY FRAMEWORK -----	<u>121</u>
4.1 Goal -----	<u>121</u>
4.2 Objectives-----	<u>121</u>
4.3 Guiding Principles-----	<u>121</u>
4.4 Direction -----	<u>131</u>
4.5 Strategies-----	<u>131</u>
4.5.1 Institutional Arrangements, Coordination and Collaboration-----	<u>131</u>
4.5.2 Capacity Building-----	<u>141</u>
4.5.3 Credit Delivery and Management-----	<u>141</u>
4.5.4 Classifying Target Groups of the Poor, Vulnerable and Marginalized -----	<u>151</u>
4.5.5 Consumer Protection -----	<u>151</u>
4.5.6 Data/Information Gathering and Dissemination-----	<u>151</u>

4.5.7	<i>Regulation and Supervision</i> -----	1616
4.5.8	<i>Research Monitoring and Evaluation</i> -----	1616
5.0	<i>INSTITUTIONAL FRAMEWORK AND IMPLEMENTATION ARRANGEMENTS</i> -----	1717
5.1	Introduction -----	1717
5.2	Resource Needs -----	1717
5.3	Institutional Arrangements -----	1717
5.4	Implementation Responsibilities of Key Stakeholders -----	1717
5.5	Progress Reporting -----	2020
6.0	<i>CONCLUSION</i> -----	2121
	<i>GLOSSARY ON WORKING DEFINITIONS</i> -----	2222

ABBREVIATIONS AND ACRONYMS

ADRA	-	Adventist Relief Agency
ARB/Apex	-	Association of Rural Banks Apex Bank
ASCAs	-	Accumulating Savings and Credit Associations
ASSFIN	-	Association of Financial Non-Governmental Organizations
ASSIP	-	Agricultural Services Investment Project
BoG	-	Bank of Ghana
CBRDP	-	Community Based Rural Development Programme
CUA	-	Credit Unions Association
ERP	-	Economic Recovery Programme
ESRP	-	Emergency Social Relief Programme
FINSSP	-	Financial Sector Strategic Plan
FNGO	-	Financial Non-Governmental Organizations
GCSCA	-	Ghana Cooperative Susu Collectors Association
GDP	-	Gross Domestic Product
GHAMFIN	-	Ghana Microfinance Institutions Network
GHAMP	-	Ghana Microfinance Policy
GOG	-	Government of Ghana
GPRS	-	Growth and Poverty Reduction Strategy
HIV/AIDS	-	Human Immuno Virus/Acquired Immune Deficiency Syndrome
IFAD	-	International Fund for Agricultural Development
IMF	-	International Monetary Fund
MASLOC	-	Microfinance and Small Loans Centre
MDGs	-	Millennium Development Goals
MDA	-	Ministries Departments and Agencies
MFI	-	Microfinance Institutions
MIX	-	Microfinance Information eXchange
MMDA	-	Metropolitan, Municipal and District Assemblies
MOFEP	-	Ministry of Finance and Economic Planning
MOWAC	-	Ministry of Women and Children's Affairs

MSE	-	Micro and Small Enterprises
NGOs	-	Non-Governmental Organizations
NSF	-	National Strategic Framework
PAF	-	Poverty Alleviation Fund
PAMSCAD	-	Programme of Action to Mitigate the Social Cost of Adjustment
RCBs	-	Rural and Community Banks
REP	-	Rural Enterprise Project
RFSP	-	Rural Financial Services Project
RMFIs	-	Rural Microfinance Institutions
ROSCAs	-	Rotating Savings and Credit Associations
SIF	-	Social Investment Fund
TSPs	-	Technical Service Providers
UNDP	-	United Nations Development Programme
VIP	-	Village Infrastructure Project

PREAMBLE

This Ghana Microfinance Policy was formulated through a consultative process that involved:

- a) Preparation of Microfinance Strategic Framework Document in 2003/2004.
- b) A study tour to Uganda, Ethiopia and Bangladesh by a ten (10) member team comprising two (2) Honorable members from the Finance Committee of Parliament, representatives each of the National Microfinance Centre, Microfinance Unit of the Ministry of Finance and Economic Planning, the Non-Bank Financial Institutions unit of the Bank of Ghana, an official from the ARB/Apex Bank, two (2) officials of the UNDP and two (2) Private Microfinance consultants
- c) A study tour to Peru and Bolivia by representatives from the Microfinance Apex bodies, Ministry of Finance and Economic and the Facilitating Agency of the Rural Microfinance Institution component of the Rural Financial Services Project (RFSP).
- d) Presentation of study tour reports to relevant stakeholders.
- e) The development of thematic papers based on the study tour reports as well as the Ghana Microfinance Strategic Framework document and other relevant policy reports and documents including the GPRS for the formulation of the GHAMP.
- f) A review of the thematic papers by a technical team of key sub-sector players comprising representatives of the Ghana Microfinance Institutions Network (GHAMFIN), ARB/Apex Bank, Credit Unions Association (CUA), Association of Financial NGOs (ASSFIN) and the Ghana Cooperative Susu Collectors Association (GCSCA).
- g) The holding of three (3) consultative stakeholder workshops to review the thematic papers with (i) Policy Makers, (ii) Practitioners, and (iii) End-users.
- h) A national forum to review recommendations made by the stakeholder workshops for finalizing the Ghana Microfinance Policy document (GHAMP).
- i) A second national forum to review the first draft of the GHAMP.
- j) A Committee of Experts to review and finalize the second draft of the GHAMP.
- k) A technical editorial team to edit the second draft for validation.
- l) A validation process with key stakeholders.
- m) Adoption by the Government.
- n) Issuance of the GHAMP by the Ministry of Finance and Economic Planning.

1.0 BACKGROUND

1.1 Economic Profile on Ghana

Over the last two decades, Ghana has made important strides in her development efforts. Among the initiatives are economic reforms such as the Economic Recovery Program (ERP) of 1983, the Structural Adjustment Programme of 1986, the Vision 2020, the Highly Indebted Poor Countries (HIPC) initiative of 2002-2003 and the Growth and Poverty Reduction Strategies I and II. One of the main objectives of the Government since 2001 is to create an enabling environment for private sector investment. With these initiatives, gross domestic product (GDP) has averaged between 4.5% and 5.8% per annum within the period.

Government continues to provide the policy support and resources required to ensure the consolidation of the gains made during the previous years. For example, between the last quarter of 2005 and the first quarter of 2006, inflation dropped from a double digit to a single digit and financial deepening rose from 26.9% in 2005 to 27.8% by March 2006. The economy recorded a gross international reserves build-up equivalent to 4 months of import cover, registered a domestic primary surplus equivalent to 2.4% of GDP while the cedi depreciated by 0.65% to the dollar in 2005 and was stable against other major currencies such as the Pound Sterling and the Euro.

In line with its objective of achieving a middle income status by 2015, the Government has identified the private sector as the engine of growth and microfinance as a strategy for wealth creation and poverty reduction. The intention is to further reduce the proportion which is classified as extremely poor which declined from 52% in 1991/92 to 40% in 1998/99 (Ghana Statistical Service, 2000).

1.2 Evolution of the Microfinance Sub-Sector

The concept of microfinance is not new in Ghana. Traditionally, people have saved with and taken small loans from individuals and groups within the context of self-help to start businesses or farming ventures. Available evidence also suggests that the first credit union in Africa was established in Northern Ghana in 1955 by Canadian Catholic missionaries. Susu, which is one of the current microfinance methodologies, is thought to have originated in Nigeria and spread to Ghana in the early 1900s.

Over the years, governments have undertaken various financial sector policies and programmes that have influenced the context for development of informal (microfinance) sector activities. Among them are:

- Provision of subsidized credits in the 1950s;
- Establishment of the Agricultural Development Bank in 1965 specifically to address the financial needs of the fisheries and agricultural sector;

- Establishment of Rural and Community Banks (RCBs), and the introduction of regulations such as commercial banks being required to set aside 20% of total portfolio, to promote lending to agriculture and small scale industries in the 1970s and early 1980s;
- Shifting from a restrictive financial sector regime to a liberalized regime in 1986;
- Promulgation of PNDC Law 328 in 1991 to allow the establishment of different categories of non-bank financial institutions, including savings and loans companies, and credit unions.

The policies have led to the emergence of three broad categories of microfinance institutions. These are:

- Formal suppliers such as savings and loans companies, rural and community banks, as well as some development and commercial banks;
- Semi-formal suppliers such as credit unions, financial non-governmental organizations (FNGOs), and cooperatives;
- Informal suppliers such as susu collectors and clubs, rotating and accumulating savings and credit associations (ROSCAs and ASCAs), traders, moneylenders and other individuals.

Programmes currently addressing the sub-sector in Ghana include the Financial Sector Improvement Project, Financial Sector Strategic Plan (FINSSP), the Rural Financial Services Project (RFSP), the United Nations Development Programme (UNDP) Microfinance Project, the Social Investment Fund (SIF), the Community Based Rural Development Programme (CBRDP), Rural Enterprise Project (REP), and Agricultural Services Investment Project (ASSIP).

1.3 Microfinance in the Context of Development

Microfinance 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 clients¹. It includes loans, savings, insurance, transfer services and other financial products and services. Microcredit is one of the critical dimensions of the broad range of financial tools for the poor.

Globally, microfinance has emerged as a leading and effective strategy for poverty reduction with the potential for far-reaching impact in transforming the lives of poor people.

¹ United Nations, Concept Paper: *Building Inclusive Financial Sectors to Achieve the Millennium Development Goals* (International Year of Microcredit, United Nations, 2005)

Microfinance can facilitate the achievement of the Millennium Development Goals (MDGs) as well as National Policies that target poverty reduction, empowering women, assisting vulnerable groups, and improving standards of living. As pointed out by the UN Secretary General Annan when launching the International Year of Micro Credit (2005),

Sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs. (Kofi Annan, December 2003).

Although microfinance is not a panacea for poverty reduction and its related development challenges, when properly harnessed it can make sustainable contributions through financial investment leading to the empowerment of people, which in turn promotes confidence and self-esteem, particularly for women.

The increasing role of microfinance in development has emanated from a number of key factors which include²:

- The fact that the poor need access to productive resources, with financial services being a key resource, if they are to be able to improve their conditions of life;
- The realization that the poor have the capacity to use loans effectively for income-generation, to save and re-pay loans;
- The observation that the formal financial sector has provided very little or no services to low-income people, creating a high demand for credit and savings services amongst the poor;
- The view that microfinance is viable and can become sustainable and achieve full cost recovery;
- The recognition that microfinance can have significant impact on cross cutting issues such as women's empowerment, reducing the spread of HIV/AIDS and environmental degradation as well as improving social indicators such as education, housing and health.

1.4 Microfinance and Poverty Reduction in Ghana

The main goal of Ghana's Growth and Poverty Reduction Strategy (GPRS II) is to ensure ***"sustainable equitable growth, accelerated poverty reduction and the protection of the vulnerable and excluded within a decentralized, democratic environment"***. The intention is to eliminate widespread poverty and growing income inequality, especially

² United Nations, Microfinance and Poverty Eradication: *Strengthening Africa's Microfinance Institutions* (New York, United Nations, 2000)

among the productive poor who constitute the majority of the working population. According to the 2000 Population and Housing Census, 80% of the working population are found in the private informal sector. This group is characterized by lack of access to credit, which constrains the development and growth of that sector of the economy. The observation was stressed in the International Monetary Fund Country report on Ghana of May 2003 that ***“weaknesses in the financial sector that restrict financing opportunities for productive private investment are a particular impediment to business expansion in Ghana.”***

Access to financial services is imperative for the development of the informal sector and also helps to mop up excess liquidity through savings that can be made available as investment capital for national development³. The Ghanaian financial sector, in spite of the reforms, still experiences a gap between the demand for and the supply of financial services.

³ World Bank-Africa Region, Studies in Rural and Micro Finance: *Financial Services for Women Entrepreneurs in the Informal Sector of Ghana*. World Bank, New York, (1999)

2.0 KEY STAKEHOLDERS OF MICROFINANCE

The key microfinance stakeholders comprise:



2.1 Main Microfinance Practitioners

2.1.1 *Microfinance Institutions, including:*

- The Rural and Community Banks,
- Savings and Loans Companies
- Financial NGOs
- Primary Societies of CUA
- Susu Collectors Association of GCSCA
- Development and commercial banks with microfinance programs and linkages
- Micro-insurance and micro-leasing services.

2.1.2 *Microfinance Apex Bodies, namely:*

- Association of Rural Banks (ARB)
- ARB Apex Bank
- Association of Financial NGOs (ASSFIN)
- Ghana Cooperative Credit Unions Association (CUA)
- Ghana Cooperative Susu Collectors Association (GCSCA)

2.2 End Users

- Economically active poor who are clients of microfinance products and services.

2.3 Technical Service Providers

- Business Development Service Providers to MFIs and their clients.

2.4 Supporting Institutions

- Microfinance and Small Loans Center (MASLOC);
- The Ghana Microfinance Institutions Network (GHAMFIN);
- Development partners and international non-governmental organisations
- Universities, training and research institutions.

2.5 Government of Ghana Institutions

- Ministry of Finance and Economic Planning
- Ministries, Departments, Agencies (MDAs) and Metropolitan, Municipal and District Assemblies (MMDAs)
- Bank of Ghana.

3.0 POLICY RATIONALE AND CHALLENGES FACING THE SUB-SECTOR

3.1 The Rationale for a Microfinance Policy

Since the beginning of government involvement in microfinance in the 1950s, the sub-sector has operated without specific policy guidelines and goals. This partially accounts for the slow growth of the sub-sector, lack of direction, fragmentation and lack of coordination. Partly due to the lack of direction, there has not been a coherent approach to dealing with the constraints facing the sub-sector. Among the constraints are inappropriate institutional arrangements, poor regulatory environment, inadequate capacities, lack of coordination and collaboration, poor institutional linkages, no specific set of criteria developed to categorize beneficiaries, channeling of funds by MDAs, lack of linkages between formal and informal financial institutions, inadequate skills and professionalism, and inadequate capital. Better coordination and collaboration among key stakeholders including the development partners, government and other agencies, could help to better integrate microfinance with the development of the overall financial sector.

Furthermore, the activities of the traditional commercial banks have not favoured micro and small enterprises. Primarily, this is due to the fact that the credit methodology being utilized requires documentary evidence, long-standing bank-customer relationship and collateral, which most micro and small businesses do not possess. The commercial banking system, which has just a few major banks, reaches only about 5% of households and captures 40% of money supply.⁴

While Ghana has a reasonably diversified and supervised regulatory framework for formal financial institutions licensed by BoG, there is concern that appropriate regulation needs to be extended to other institutions operating in the microfinance sub-sector in order to improve the outreach, sustainability and efficiency of savings, credit delivery, and institutional arrangements. The existing situation has informed the development of this policy.

3.2 Challenges Facing the Sub-Sector

Stemming from the analysis above, the specific challenges facing the industry are as follows:

3.2.1 Institutional Arrangements

The stakeholders in the sub-sector play various roles which are expected to be complementary. Due to the lack of defined areas of operation, the roles and responsibilities of stakeholders currently overlap in some cases. The overlap is also due partly to the fact that organizational and institutional hierarchy and reporting relationships among all the stakeholders are not clearly defined. Commercial banks could play an increasing role. There

⁴ World Bank, Rural and Micro Finance Regulation in Ghana: *Implications for Development of the Industry*, World Bank, New York (2004)

is the need therefore to clearly define relationships and roles to enhance effective implementation and delivery of services.

3.2.2 Capacity Building

3.2.2.1 Human Capacity

In order to promote the sub-sector, the various stakeholders organize training programmes and activities with the view to upgrading the human capital in the industry. Nevertheless, the staffing and competency level being achieved with these training programmes is still below what is desired. Thus, the human capacity of some key stakeholders and institutions including MASLOC, GHAMFIN, Bank of Ghana, MFIs, relevant Ministries, and technical service providers is currently inadequate for microfinance operations. The random and incoherent nature of training programmes has also hampered the achievements of the projected gains for the sub-sector. The flaw in the human capacity of all the stakeholders has had a rippling effect on the governance and structure of the industry.

Furthermore, the current microfinance Apex bodies lack an adequate cadre of in-house trainers and/or facilitators as well as in-house monitoring and evaluation units to continually measure progress of their activities consistently over time.

3.2.2.2 Infrastructure

Infrastructural capacity in the sub-sector is yet to be developed around an integrated and holistic logistical support and internal operating systems.

3.2.2.3 Funding

Funding for the sub-sector has been from three sources: the institutions themselves, government, and development partners. Firstly, available funds have not fully 'met the needs for developing and expanding the sub-sector; and, secondly, the varying sources come with their conditions, and distort the market in some cases. There is considered to be a need for a central microfinance fund to which MFIs can apply for on-lending and/or capacity building support, building on experience such as the Training Fund under the Rural Financial Services Project.

3.2.3 Credit Delivery and Management

3.2.3.1 Credit Delivery Mechanisms

The current strategies for credit delivery are not adequately diversified or efficient, and therefore are unable to fully meet the varying demands of the market and different categories of end-users.

3.2.3.2 Categorization of Institutions

There is no framework for categorizing and upgrading some of the emerging microfinance institutions in the semi-formal and informal sub-sectors in accordance with their operational capacities and capabilities.

3.2.3.3 Classifying target groups

The objective of microfinance is to provide resources for the poor. Nonetheless, there is yet to be adequate, reliable and acceptable methods for classifying various poverty levels to enhance the categorization of potential and actual MFI clients and other forms of support that may be more appropriate for some groups.

3.2.4 Targeting the Vulnerable and the Marginalized

3.2.4.1 People with Disabilities

People with disabilities and impairments do not have products and services designed to meet their needs and also are not adequately served by existing microfinance funds and services. This target group in particular could benefit from complementary skills training programmes.

3.2.4.2 Women

The existing skills training and funding arrangements for women do not seem to be market-driven. Thus, specific services and products that target women for entrepreneurship development to enable them engage in economic activities and become more self-reliant need to be more coherent.

3.2.4.3 Youth

Young people aged 15-24 years account for about a third of the population of Ghana and constitute over half of the unemployed population. There is a need for special microfinance, grant and training programmes that target the youth for entrepreneurial development.

3.2.5 Data/Information Gathering and Dissemination

3.2.5.1 National data and Reporting System

Generally, there is paucity of information on microfinance institutions, their operations and clients in the country. Approaches to and methodology for data and information gathering at the national level are not uniform, making it difficult to centrally monitor progress of the sub-sector. The current attempt to develop a national data bank on microfinance is yet to be fully realized. There is a lack of well defined reporting system by both the government and development partners with regards to their interventions. The outcome is inadequate data base for decision-making and planning.

3.2.5.2 Institutional data

At the institutional level, data/information gathering and dissemination are weak within and between institutions. The lack of common benchmarks, methods for measuring and information sharing further inhibits the performance of the sub-sector.

3.2.5.3 Clientele Data

Lack of adequate and reliable information on outreach in terms of its depth and breadth remains one of the most daunting in the sub-sector. This lack of information has affected targeting of clients and ultimate poverty reduction.

3.2.6 Regulation and Supervision

3.2.6.1 National

There is a need for dialogue on the formulation, implementation and review of regulatory and supervisory policies and procedures to ensure consistency and cost-effective approaches to regulation across different types of microfinance institutions and products. There is a need to balance permitting continued evolution of a variety of institutions providing microfinance products and services with the need to protect depositors' funds, provide adequate information and protection to consumers, and coordinate expansion and regulation of different segments of the market.

3.2.6.2 Formal Institutions

Microfinance institutions in this category face rigid regulatory and supervisory systems that present some challenges for product innovativeness, outreach and ultimately the performance of the institutions.

3.2.6.3 Semi-formal and Informal Institutions

There is a lack of well specified guidelines for operations among apex bodies namely, CUA, GCSCA, ASSFIN and Cooperative Council. This leads to uncoordinated activities and invariably hampers the performance and outreach of their member institutions.

3.2.7 Consumer Protection

Current microfinance practices lack the mechanisms for ensuring consumer protection or sovereignty. Regulations for disclosure and transparency could help build consumer confidence in the operations of MFIs.

3.2.8 Collaboration and Coordination

3.2.8.1 National

There is no national body which is responsible for coordinating all activities associated with microfinance, nor is there a forum for dialogue among stakeholders on policy and programme issues. As a result there is lack of coherent approach, fragmentation, duplication and inadequate collaboration between and among MDAs, MMDAs, development partners, service providers, practitioners and end users.

3.2.8.2 Institutions

The role of GHAMFIN as an umbrella body for microfinance apex institutions, as well as their member institutions, needs to be strengthened to ensure the transfer of best practices and setting of standards for the industry. The existing institutional structure does not include all practitioners and service providers.

3.2.9 Research, Monitoring and Evaluation

3.2.9.1 Research

Current research activities within the sub-sector are weak and inadequate. Research studies undertaken are uncoordinated. There is therefore no national research agenda to inform planning and policy formulation in the sub-sector.

3.2.9.2 Monitoring and Evaluation

The current capacity of various institutions in the sub-sector to undertake monitoring and evaluation of programmes and activities is currently inadequate. There is no national monitoring and evaluation framework existing to guide practitioners on their activities. Different monitoring and evaluation frameworks are being used in different programmes, making it difficult to undertake comparative assessment of programmes and projects for their impact on the performance of institutions and clients.

4.0 POLICY FRAMEWORK

4.1 Goal

The goal of GHAMP is to promote the delivery of efficient and sustainable microfinance services to achieve wealth creation and poverty reduction, within the context of the objectives of Ghana's poverty reduction, growth and financial sector development strategies.

4.2 Objectives

The primary objectives of the policy are to:

- create an enabling environment at the macro, meso and micro levels that supports the operations of the sub-sector;
- provide avenues for the sustainable flow of funds, adequate infrastructure and development of human capital;
- ensure a harmonized and coordinated sub-sector;
- ensure an integrated and sustainable financial system that reaches the poor;
- facilitate activities that ensure consumer protection.

4.3 Guiding Principles

The overall guiding principle is that microfinance is an integral part of financial systems development in Ghana.

Additional guiding principles adapted from Consultative Group to Assist the Poor (CGAP)⁵ to inform this policy are:

- a) Microfinance is a powerful tool for poverty reduction and economic development, but it is not a panacea.
- b) Government is committed to the development of the sub-sector.
- c) Adequate provision of financial and non-financial services to meet the needs of economically active poor and the vulnerable.
- d) Microfinance is a viable and sustainable venture. Microfinance development is about building sustainable local financial institutions.
- e) Policies are results-oriented and gender sensitive.

⁵ "Building Inclusive Financial Systems: Donor Guidelines on Good Practice in Microfinance," Washington, DC: CGAP, 2004.

- f) Adequate institutional arrangements in place to enhance the growth of the sub-sector.
- g) Providers of microfinance services operate in a competitive and coordinated environment.
- h) Adequate capacity developed to meet the needs of the sub-sector.

4.4 Direction

The general policy direction of the sub-sector is that the Government of Ghana ***shall seek to improve and deepen financial intermediation to serve the poor and low-income populations by supporting the the building of an inclusive, sustainable and efficient financial services system.***

In line with national financial policies and other relevant programmes and projects, this policy will be achieved through activities with MDAs and MMDAs, development partners, practitioners, service providers, supporting institutions and end users. The intention is for all these key stakeholders to act in concert to achieve the objectives of the policy and in accordance with internationally accepted best practices, principles and standards.

4.5 Strategies

In order to achieve the goal and objectives of this policy the following strategies will be adopted:

4.5.1 Institutional Arrangements, Coordination and Collaboration

In order that key microfinance stakeholders act together in a coherent and sustainable manner to build a strong microfinance sub-sector, there shall be well defined institutional arrangements outlining the roles, responsibilities and functions of key stakeholders. Coordination and collaboration among institutions within the sub-sector will minimize duplication and foster complementarity of activities by all stakeholders within the industry.

- Establish a National Microfinance Forum that meets periodically for information-sharing and discussion of sub-sector issues among all interested stakeholders, including Government, practitioners, apex organizations, development partners, technical service providers, and end users.
- Establish national, regional and district consultative committees comprising representatives of key stakeholders at each level charged with planning, implementation, coordination, and reporting on microfinance activities within their respective areas.

- Encourage networking among MFIs, Apex Bodies, supporting institutions and development partners. Every type of institution shall be expected to be represented by an Apex body.
- Encourage linkages between formal and informal financial institutions.

4.5.2 Capacity Building

A well-developed human capital programme is essential for the building of a sustainable and efficient microfinance sub-sector. Capacity Building in the sub-sector shall involve three strategic areas: human capital, infrastructure and funding.

4.5.2.1 Human Capital

The objective is to develop consistent, comprehensive and coherent training programmes targeting various stakeholders in accordance with their roles, needs and category. Specific competency-based programme shall be designed for practitioners. In this regard, technical service providers shall endeavour to develop and/or adopt standardized Training Manuals appropriate for their needs.

Microfinance Apex Bodies, Training Service Providers and Microfinance Practitioners will be expected to develop well focused programmes to train end-users as well as specialized training programmes for the identifiable groups such as women, people with disabilities and the youth.

Stakeholders including training and service providers shall collaborate with national and international teaching and research institutions to develop programmes that meet local demands and are comparable to international benchmarks.

4.5.2.2 Infrastructure

Infrastructure development will be pursued with the aim of establishing a base and the provision of adequate logistics to support operations and activities. As part of the process mechanisms shall be put in place to systematically harmonize the development of infrastructure and the provision of logistics.

4.5.2.3 Funding

A fund shall be created to meet the needs of the sub-sector. Other funds from diverse sources are also encouraged to meet the needs for capacity building. Coordination and tracking at all levels shall be vigorously pursued, to ensure the judicious use of all available funds.

4.5.3 Financial Services Delivery and Management

A diverse, sustainable and efficient financial services delivery system is essential for the success of the microfinance sub-sector. Addressing issues regarding credit delivery systems (access to loans, interest rates, and repayment), the categorization of institutions as well as classification potential beneficiaries are key to the operations of the sub-sector.

4.5.3.1 Credit Delivery Mechanisms

MFIs shall be encouraged to develop and provide diversified and efficient credit delivery systems that meet the varying demands of the market. There shall be minimum standard requirements which all MFIs will be expected to meet.

Interest rates for microfinance shall be market based.

4.5.3.2 Other Financial Services

Other institutions providing financial services such as insurance, leasing and money transfers shall be encouraged to develop methodologies for adapting their products to microentrepreneurs and low-income households.

4.5.3.3 Categorization of Institutions

A framework for categorizing and grading of existing and emerging institutions especially in the semi-formal and informal sub-sector shall be developed in consultation with all stakeholders.

4.5.4 Classifying Target Groups of the Poor, Vulnerable and Marginalized

Microcredit should be targeted to those who can use it productively and service debt. Microfinance is also about providing savings and other financial services to the vulnerable and the marginalized, which in the context of Ghana have been identified to be women, the youth and the physically-challenged. In this regard, specific programmes and products shall be designed for women, the youth and the physically-challenged. Mechanisms shall be put in place to ensure adequate, reliable and acceptable methods for classifying poverty levels (such as ultra poor, hard core poor, economically active poor and non-poor) in order to enhance targeting, eligibility and the provision of services, including training and grant-based programmes where appropriate, as well as microfinance interventions [see Glossary].

4.5.5 Consumer Protection

The protection of potential and actual end-users of microfinance products and services from unfair practices such as usurious interest rates shall be ensured through public disclosure and transparency in the operations of institutions. In the absence of national consumer protection legislation/regulations that cover financial services, MFI apex organizations shall be encouraged to develop and implement industry standards.

4.5.6 Data/Information Gathering and Dissemination

Accurate, reliable and timely data collection and information dissemination are essential for effective planning, monitoring and evaluation as well as the sustenance of the industry. In this regard, a standardized system for data capture, storage and dissemination shall be promoted at all levels to facilitate the various outcomes of the operations of the industry.

The broad objective of the standardized system is to harmonize information gathering, processing and dissemination in order to enhance the activities of the sub-sector. GHAMFIN shall be empowered to process data to be provided through the apex organizations, utilizing the MIX format insofar as feasible.

There shall be a central data base system which will accessible by all stakeholders.

Data collection techniques, research findings and all aspects of data management within the sub-sector are a topic to be discussed at the level of the National Microfinance Forum.

4.5.7 Regulation and Supervision

Regulation and supervision are meant to ensure that institutions maintain minimum standards of performance and operate within the monetary and financial policies of the country.

The industry shall be guided by the following principles:

- All MFIs seeking assistance from Government or donor programmes shall require certification that it is a member in good standing with its respective sub-sector apex organization.
- All MFI Apex Bodies shall be expected to establish appropriate bye-laws, criteria for registration and standards, which shall be periodically reviewed in accordance with prevailing circumstances within the country and in response to international practices.

4.5.8 Research Monitoring and Evaluation

Research, monitoring and evaluation are essential elements in the promotion of efficient planning, implementation and review of interventions. In line with the objectives of this policy, the following will be pursued:

- Conduct baseline studies on operations and outreach of institutions as well as on a wide range of issues such as policies, institutional arrangements, levels of collaboration and regulatory mechanisms.
- Conduct operations research geared towards improving the efficiency of on-going projects and MFIs.
- Collaborate with universities and other research institutions to conduct periodic research into various aspects of the operations of the sub-sector.
- Ensure the development of key indicators for monitoring and evaluating the impact of programmes and activities and feedback mechanisms for review of implementation and policy.

5.0 INSTITUTIONAL FRAMEWORK AND IMPLEMENTATION ARRANGEMENTS

5.1 Introduction

The microfinance policy document shall be implemented initially over a six (6) year period. An implementation plan to support this shall be developed by the Ministry of Finance and Economic Planning in collaboration with key stakeholders. The MoFEP shall supervise its implementation.

5.2 Resource Needs

The implementation plan shall highlight the financial and human resources required to implement strategic actions.

5.3 Institutional Arrangements

Institutional arrangements that have been agreed upon in this policy may be reviewed in the light of sub-sector developments at the Microfinance Forum in order to further enhance implementation of the policy and the development of the sub-sector.

5.4 Implementation Responsibilities of Key Stakeholders

The various stakeholders are expected to develop appropriate strategies for the responsibilities they have been assigned in the policy. Implementation roles and responsibilities of the key stakeholders are as follows.

5.4.1 *Main Microfinance Practitioners: Apex Bodies (ARB Apex Bank, CUA, GCSCA, AsFIN)*

- Provide quality financial and technical services to its members;
- Develop programmes for the continuing education of its members;
- Ensure efficient and profitable operation of all member banks;
- Maintain comprehensive data base on members;
- Undertake advocacy on behalf of members;
- Promote research and develop mechanisms for the dissemination of information;
- Develop standards for its members; and
- Ensure the adoption of national indicators for monitoring and evaluation.

5.4.2 Microfinance Technical Service providers

- Provide technical and business development services to the different categories of institutions operating in the sub-sector;
- Provide training, skills and entrepreneurship development services to end users of RMFIs;
- Develop new products and services to keep pace with development of the sub-sector; and
- Ensure that content and delivery methods are consistent with best practices.

5.4.3 Supporting Institutions

5.4.3.1 Microfinance and Small Loans Center (MASLOC)

Undertake the necessary reforms and development measures that would strengthen microfinance operation as an effective and viable strategy for poverty reduction.

- Establish governing board that includes representatives of key stakeholders, including relevant Ministries, Bank of Ghana, and microfinance industry practitioners;
- Provide administrative support for the governing board;
- Administer Government's Microfinance and Small Loans Scheme;
- Enhance collaboration, and develop monitoring and reporting mechanisms for public funds in the sub-sector; and
- Advocate for and advise Government on policies to enhance development of a decentralized microfinance system that is integrated with or linked to the formal financial system, so as to enhance sustainable growth.

5.4.3.2 Ghana Microfinance Institutions Network (GHAMFIN)

- Act as the umbrella network of the RMFIs and their Apex Bodies to promote and undertake advocacy on the overall interests of its members and the sub-sector;
- Coordinate and collaborate with MASLOC, member institutions, microfinance Apex Bodies, MDAs, and all other stakeholders to promote the interest of the sub-sector;
- Facilitate capacity building for member institutions;
- Source and distribute information on microfinance best practices to members, and promote the sharing of experience and resources;
- Undertake performance monitoring and national benchmarking for the microfinance institutions;
- Serve as the repository for all information and data on the microfinance sub-sector;

- Promote research on all aspects of the sub-sector; and
- Liaise with Apex Bodies to develop standards and self-regulation strategies for different segments of the sub-sector.

5.4.3.3 Development Partners

- Engage in dialogue with other stakeholders on development of the sub-sector, including participation in the Microfinance Forum;
- Support strengthening of the enabling environment;
- Coordinate and harmonize the provision of technical assistance and financial resources by way of technical assistance, loans and grants;
- Develop and share information on national and international practices in microfinance.

5.4.4 Government of Ghana

5.4.4.1 Ministry of Finance and Economic Planning

- Create an enabling macroeconomic and financial policy environment for accelerated development of the microfinance sub-sector;
- Be responsible for policy formulation and direction for the sub-sector in consultation with key stakeholders
- Establish and manage the Microfinance Forum [see sec. 4.5.1].
- Chair governing board of MASLOC;
- Establish linkages with relevant MDAs and other relevant bodies to monitor and evaluate all aspects of the sub-sector; ;
- Harmonize and coordinate technical assistance and financial resources from development partners; and
- Oversee activities related to the microfinance fund.

5.4.4.2 Ministries, Departments and Agencies (MDAs) engaged in microfinance activities

- Liaise with MASLOC and the MoFEP in the design and implementation of interventions;
- Develop modalities for interventions that are consistent with the broad objectives and strategies for the sub-sector;
- Participate in the periodic national Microfinance Forum; and
- Ensure adherence to standardized formats for data collection, management and reporting systems for their programmes.

5.4.4.3 Metropolitan, Municipal and District Assemblies (MMDAs)

Within the decentralized system MMDAs are the main implementers of government programmes and activities at the local level. As such, they constitute an important element within the microfinance sub-sector. In the context of this policy MMDAs shall:

- Act as active intermediaries in the design and implementation of Public Sector Microfinance programmes;
- Assist to develop poverty profiles of their areas of jurisdiction;
- Design and implement projects and programmes that address microfinance issues in their areas of jurisdiction;
- Participate in the monitoring and evaluation of Microfinance programmes and activities in their areas; and
- Collaborate with international, national and local microfinance institutions that operate within their areas.

5.4.4.4 Bank of Ghana

- Be responsible for ensuring the soundness and stability of the microfinance sub-sector, including the development of regulatory mechanisms appropriate for different segments of the microfinance sub-sector, consistent with its mandate for overall regulation of the financial sector;
- Liaise with microfinance Apex Bodies to develop appropriate standards for self-regulation, as appropriate, and indicators for monitoring and evaluation;
- Provide data and performance indicators for monitoring and evaluation of RMFI segments under its supervision; and
- Promote research on all aspects of the sub-sector.

5.5 Progress Reporting

The GOG represented by MOFEP shall monitor and report on implementation of this policy and strategy annually to stakeholders through the Microfinance Forum. There shall be a Microfinance Conference at the end of every three years purposely to review the policy.

6.0 CONCLUSION

The Government of Ghana has adopted microfinance as one of the important strategies for poverty reduction and wealth creation. Recognizing the role various institutions and individuals can play to ensure the achievement of the national vision of becoming a middle income country by the year 2015, this document represents an attempt to define guidelines for stakeholders in the industry. The intention is to provide broad guidelines and create the needed atmosphere for the various stakeholders to operate.

Institutions and individuals have the collective responsibility to ensure that the institutional arrangements presented here are used to promote the sub-sector. For its implementation, it will be necessary to:

- Identify resource requirements for the implementation of the policy;
- Develop implementation plans to support the policy;
- Organize stakeholders meetings periodically to review the policy; and
- Develop programmes and strategies that will further enhance the implementation of the policy and the development of the sub-sector.

These activities should be coordinated by the Ministry of Finance and Economic Planning in collaboration with the Bank of Ghana.

GLOSSARY ON WORKING DEFINITIONS

In order to ensure consistency and common understanding, the following working definitions apply within the context of this policy document.

Poverty

Poverty is a Multi-dimensional concept encompassing:

- *Economic/material deprivation* related to availability and use of basic needs/necessities of life;
- *Vulnerability* such as access to services and knowledge, safety nets and/or exposure to shocks and defenselessness;
- *Political deprivation* in the form of active participation, liberty and autonomy and
- *Psychological/social deprivation or ill-being* covering dignity, social inclusion, opportunities and choice.

Poverty Alleviation versus Poverty Reduction

Unlike **Poverty alleviation** which mainly addresses the **effects** of poverty, such as, deprivation of social needs and rights, **Poverty Reduction** focuses more on addressing the causes of poverty, for example, on providing the conditions for empowerment at the micro level and enabling growth and structural challenges at the micro and macro level in the long run.

Categories of the Poor

- **Ultra Poor**

The category is the “Poorest of the poor” who are often destitute and require skills training and grants for investment. This category of the poor needs to stabilize household consumption before they can begin to save.

- **Hard Core Poor**

This category consists of the poor that can engage in seasonal ventures but are not productively employed for most part of the year. They also require skills training, coaching and grants for working capital. This category of the poor can save and utilize their grants effectively before graduating to loans.

- **Economically Active Poor**

This category of the poor are engaged in productive economic activities throughout the year. They usually have limited working capital and can utilize loans for repayment with interest. The economically active poor can often save before borrowing, since they are productively engaged.

Decentralization

Decentralization is defined as promoting popular participation and ownership of the machinery of Government by shifting the process of governance from command to consultative processes and by devolving power, competence and resource/means to the district level. Chapter 6 of the constitution of Ghana provides for Decentralization and emphasize

Devolution

Devolution is the granting of powers from Central Government to Governments at sub-national and sub-regional levels including the transfer of decision making, finance and management to quasi-autonomous local government units with corporate status such as the Metropolitan, Municipal and District Assemblies. Devolution is the preferred approach for implementation.

Microcredit

Microcredit is the provision of cash and in kind loans in smaller amounts to micro, small entrepreneurs meant to improve their business operations.

Microfinance

Microfinance consists primarily of providing financial services including, savings, micro-credit, micro insurance, micro leasing and transfers in relatively small transactions designed to be accessible to micro-enterprises and to low-income households. Microfinance may be complemented by non-financial services, especially training, to improve the ability of clients to utilize the facilities effectively.

Formal Financial Sector

The formal financial sector in Ghana includes the Traditional Commercial Banks, Rural and Community Banks and other financial institutions such as the Savings and Loans Companies whose operations are registered, licensed and regulated by the Bank of Ghana.

Semi-Formal Financial Sector

The sector comprises of informal institutions that are formally registered but not licensed/regulated by Bank of Ghana such as the Credit Unions of Ghana, Ghana Cooperatives Susu Collectors Association, Ghana Cooperative Council and Association of Financial Non-Governmental Organizations. They constitute the key stakeholders of the Microfinance Sub-sector in Ghana.

Informal Financial Sector

The informal financial sector is the components of the financial sector whose service providers are usually not registered and unregulated by the Bank of Ghana and rarely involve legal documentation. The segment includes Money lenders, Susu clubs, Rotating Savings and Credit Associations (ROSCAs).