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Microfinance institutions and micro & small enterprises in Ghana

The potential of the missing middle

Marco Trombetta
María Luque Calvo
Pablo Casadio

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Microfinance Institutions and Micro & Small Enterprises in Ghana

The Potential of the Missing Middle

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Authors:

Marco Trombetta, IE Business School – IE University
María Luque Calvo, Financieros sin Fronteras
Pablo Casadio, Financieros sin Fronteras

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ABBREVIATIONS

AGI	Association of Ghana Industries
ARB	Association of Rural Banks
ASSFIN	Association of Financial NGOs
ASSI	Association of Small Scale Industries
BDS	Business Development Services
BoG	Bank of Ghana
BUSAC	Business Sector Advocacy Challenge Fund
EDSC	Enterprise Development Services Centre.
FNGOs	Financial Nong-Governmental Organizations
GAWE	Ghana Association of Women Entrepreneurs
GDP	Gross Domestic Product
GHAMC	Ghana Association of Microfinance Companies
GHAMFIN	Ghana Microfinance Institutions Network
GHASALC	Ghana Association of S&L Companies
GCCUA	Ghana Co-operative Credit Unions Association
GCSCA	Ghana Co-operative Susu Collectors Associations
GSGDA	Ghana Shared Growth and Development Agenda
GSS	Ghana Statistical Service
IBES	Integrated Business Establishment Survey
IMFs	Microfinance Institutions
MEs	Micro Enterprises
MFCs	Microfinance Companies
MLAG	Money Lenders Association Ghana
MoE	Ministry of Education
MoFEP	Ministry of Finance and Economic Planning
MoGCSA	Ministry of Gender, Children and Social Affairs
MoTI	Ministry of trade and Industry
MSEs	Micro and Small Enterprises
NBSSI	National Board of Small Scale Industries
NGO	Non-Govermental Organization
NIC	National Insurance Commision
RGD	Registrar General´s Department
ROA	Return on Assets
SEs	Small Enterprises
S&L	Savings and Loans Companies
SMEs	Small and Medium Enterprises
RCBs	Rural and Community Banks
UNIDO	United Nations Industrial Development Organization

EXECUTIVE SUMMARY

There is evidence of a structural imbalance of the private sector in Ghana that includes on the one side a few large, technologically advanced, capital-intensive and resource based enterprises and, on the other side, a big number of traditional, labor-intensive and low-productivity micro and small enterprises (MSEs), that are losing competitiveness and gaining a survival and informal character[1], creating a need of growth-oriented small and medium size enterprises (SMEs) able to enhance smaller and larger firms`interaction and catalyze the economic growth of the country.

Recognizing the lack of access to appropriate financial products and services as one the factors preventing MSEs`s growth, government efforts to build a more inclusive financial system have been intensified in the last 10 years, creating a framework of policies, regulations, institutions and initiatives aimed at covering MSEs and low-income individuals´ financial needs, specially through microfinance. Although levels of financial inclusion in the country are increasing, the access and use of financial products and services is still low and for the moment the microfinance sector as a whole is failing to reach its full potential.

The discussion, in this sense, is organized around 3 sections:

- The first section draws a general picture of the Ghanaian enterprise structure, brings attention on the importance of MSEs for the development of the country and identifies factors affecting the survival and growth of these enterprises.
- The second section focuses specifically on financial inclusion and the microfinance sector in Ghana. It highlights the role that Financial Non-Governmental Organizations (FNGOs) can have in facilitating MSEs´ access to financial and non-financial products and services and the challenges affecting these institutions´ capacity to fulfil their role.
- Finally, authors recommend some measures that should be studied in order to improve the environment in which FNGOs operate and to strengthen their capacity to increase their impact not only including more women and low-income individuals into de financial circuit and enabling them to reduce their basic vulnerabilities, but also promoting their MSEs´ growth.

The research has found that:

1. Despite widespread informality in MSEs in Ghana, it is necessary to recognize their importance as (1) *Major generators of employment*, due to their labor-intensive character, low skill requirements, and the flexibility of their operations (2) *Livelihood strategies* that can help women and low-skilled individuals to reduce their vulnerability, and (3) *potentially profit-making Enterprises* with a significant capacity for production, due to their proximity and knowledge of the local market, flexibility and low-cost production resources.
2. MSEs in Ghana, especially the smaller ones (household[2] and micro non-household enterprises) are not being served appropriately in terms of financial products and services. With a few notable exceptions, the record of microfinance institutions (MFIs) in Ghana, based on the microfinance principles of "*outreach to the poor and financial sustainability*", is limited. They have only reached 6.551.065 clients in the whole country and their Return on Assets (ROA) between 2008 and 2012 is found to be fairly low[3]. This is mainly due to the fact that neither Banks, nor MFIs have the know-how, the capacity or the interest to serve lower-income microentrepreneurs, due principally to MSEs characteristics (specifically, information asymmetries regarding microentrepreneurs´ managerial abilities and MSEs´ performance) and the high transaction costs relative to small loan size (100-1500GhC), that makes necessary the use of methodologies that may be inefficient for traditional banks (loan analysis based on client´s ability to pay

[1] According to our evidence, 62% of the sample surveyed would use his/her own savings to cover business expenses and, on the other hand, 76% of the respondents would use the daily revenue of the business to cover family expenses.
[2] Household enterprises are defined by the IBES as "*non-farm enterprises managed by a person, with the help of family members but without wage-workers"*.
[3] Source: GHAMFIN Data Collection Unit 2013, (from subsector apex associations). Number of institutions reporting may be less than the total number licensed or active in the subsector.

to substitute collateral, credit with education, group lending, specific training and incentives for loan officers to keep quality of the portfolio, control mechanisms, etc.).

3. Despite the statement above, there is one type of MFI, FNGOs that provide an alternative approach to microenterprise development, mixing financial activities and social purposes, that gives them certain advantages that the other financial intermediaries in the country do not have, and could play a critical role in terms of outreach, as a first level of formal financial inclusion for microenterprises, preparing the ground for them to access an increased number of products and services more adapted to MSEs growth needs.

4. Among the challenges faced by FNGOs, the current regulatory environment, imposing too strict prudential regulatory requirements on FNGOs without taking into account their social focus, can constrain past achievements regarding increasing financial inclusion. This is especially true for some well-functioning FNGOs that will have to cease operations for failing to fulfill some of the licensing requirements, thereby leaving thousands of individuals without access to financial products and services again.

Main Policy Recommendations:

1. Design a Financial Inclusion Policy based on a country-wide assessment of the needs of both the microfinance industry and the microenterprises, to guide different actors towards the achievement of a clearly stated common objective.

2. Segmentate FNGOs and apply different regulatory requirements and permissive activities for FNGOs that want to maintain a "*primary social mission*", and those who want to "*transform into formal financial intermediaries".*

3. Develop infrastructure and the technical and human capacity of support institutions to improve the effectiveness of actions taken at government level and by the MFIs working with disadvantaged individuals and household and MSEs.

IMPORTANCE OF THE STUDY

Data from the Ghana Statistical Service (GSS) indicates that MSEs in Ghana engage more than 62% of total active population, suggesting they are an important source of family income and major generators of employment, and that could become the catalyst of the country´s economic development. One of the factors preventing MSEs´ growth is the lack of appropriate access and use of financial products and services, revealing that despite of having a vibrant financial system, the record of MFIs in Ghana in terms of sustainability and outreach is low.

This document tries to explain the importance of MSEs in Ghana and the role of MFIs and more specifically FNGOs, in facilitating financial products and services to them, and determine the constraints affecting their capacity and performance to fulfil their role. With that purpose in mind, the research focused on three areas of interest: (1) business environment, regulations, legal framework and key stakeholders from governmental and support institutions, (2) the supply side, MFIs and the opportunities and difficulties they face when serving their target clients and (3) the demand side, MSEs, their dynamics and growth´ needs and challenges.

The main research question pursued is:

Which is the missing middle that could facilitate the growth of MSEs in Ghana?

The answer to this question is provided by answering the following ancillary questions.

(1) What are the issues hindering the growth of MSE in Ghana?
(2) Where is the problem of financial inclusion in Ghana more severe?
(3) Which type of microfinance institutions have the highest potential to be effective where it is most needed?

Our findings not only contribute to the global knowledge about MSEs and MFIs in Ghana, but are also helpful for donors, investors and local and international organizations, including research initiatives interested in contributing to the development of a more inclusive financial system able to approach Ghanaian MSEs´ different needs. Results should principally impact decisions and actions at 3 levels:

Government institutions: we would like to highlight the importance of (1) conducting further research regarding the different segments of MSEs, including household enterprises, to design targeting strategies (2) developing a closer alignment of the different ministries in the elaboration of strategies, policies and regulations related to "*MSEs growth*", "*women & low income individuals´ empowerment*" and "*financial inclusion"*, including not only the Ministry of Finance and Economic Planning (MoFEP), but also the Ministry of trade and Industry (MoTI), Ministry of Gender, Children and Social Affairs (MoGCSA), due to women participation in microfinance and the Ministry of Education (MoE), to develop evidence of the importance of managerial skills and education to run a successful enterprise and (3) reviewing the regulation for FNGOs so that they have the appropriate framework to undergo an institutional transformation, if so they wish.

Microfinance Networks and Associations supporting the development of MFIs: the document highlights some factors that are constraining the effectiveness of MFIs and makes evident that that some of them can be solved by creating sustainable infrastructure in order (1) to allow information collection and dissemination, dialogue with government and coordination with donors and other actors, (2) to encourage value chain actors´ cooperation to develop new products and reach new markets, (3) to foster quality advice and technical support initiatives, aimed at improving MFIs performance.

Microfinance Institutions: This research brings to light the vulnerability of low income entrepreneurs and women in Ghana. We would like to raise MFIs´ awareness about the fact that the mere replication of products and processes for use by entrepreneurs with different characteristics and socio-economic conditions does not work. It is necessary to have a comprehensive understanding, based on market research, of the specific characteristics, needs and capabilities of their clients and offer them a mix of products and services coupled with appropriate delivery channels and adequate customer service, which allow not only to reduce their client´s basic vulnerabilities, but also boost the growth of their MSEs. All these should be integrated as part of a business planning process that guides the institutions towards previously stated social and financial goals.

METHODOLOGY

This document relies on integrated qualitative methods of data collection to better understand the underlying issues behind the impact of FNGOs in microenterprise development in Ghana and therefore both, primary and secondary data were used. To gather primary data, two types of interviews were followed:

Semi-structured interviews: Different agents from governmental and non-governmental institutions were interviewed to get a deeper knowledge of the current business environment for MSEs in the country and the institutions and programs supporting their development, especially within the microfinance sector. These experts, with their practical knowledge and understanding of the situation of MSEs and MFIs in Ghana, provided valuable insights that helped to identify the research areas and the nature of problems (Annex 1).

Structured interviews: The collection of the data for this study took place in between 2014 and 2015 during several trips to Ghana and via internet surveys.

- On the supply side, all the 43 FNGOs registered with ASSFIN were sent a questionnaire. Only 13 of them replied with a full questionnaire. Some of these institutions also participated in semi-structured interviews, which allowed a deeper understanding of their problems. The supply side questionnaire was made of 10 questions divided in four blocks: (1) basic data about the FNGO; (2) current perception of regulation by FNGOs; (3) challenges faced by FNGOs; (4) FNGOs´ perception of clients' challenges.
- On the demand side, 85 individuals in urban, peri-urban and rural areas, were surveyed to gain insights into their feelings and attitudes in different aspects related to their businesses. Interviews were conducted in places were FNGOs could find their perspective clients such as markets, churches, rural communities. The survey contained 33 questions divided in 6 sections: (1) general information about the person; (2) information about the business; (3) business management; (4) relationship with the financial sector; (5) business and the family; and (6) future.

Despite the fact that the samples are not representative of the entire population, they provided a first insight necessary for the understanding of the features and problems faced by both FNGOs and their clients.

Moreover, authors have travelled to Ghana regularly to supervise groups of graduate students that collaborate with some FNGOs as part of their Master program´s final project. The objective of these visits is to analyze and provide technical assistance to these institutions. These regular trips started in 2011, take place twice a year since then, and have allowed the authors to spend time both with the personnel of the FNGOs analyzed and with some of the clients. Until now 34 of these projects involving 12 different FNGOs have been finalized. The experience gained has been used to interpret the answers to the questionnaires.

Secondary data was gathered by way of a thorough literature review. In particular, two documents were of special relevance in our analysis:

- *The Performance Monitoring and Benchmarking of Microfinance Institutions in Ghana, Trends in the Industry During the 2000s (2006 -2012)",* a document based on data supplied by the Ghanaian MFIs yearly through their apex bodies or directly to the Ghana Microfinance Institutions Network, (GHAMFIN) for aggregation, analysis and publication. The document reviews the sub sectoral composition of the industry as of 2012 and trends during 2006-12 and analyses key performance indicators by type of MFI.
- In September 2016, the GSS launched the results of the "*Integrated Business Establishment Survey"* (IBES), the first non-household economic census covering all sectors of the country's economy". A total of 638,234 establishments were censed engaging[4] 3,383,206 people. For the moment three reports have been released: The *Summary Report* gives a comprehensive analysis of establishments by sector, size and other characteristics and the *National Employment Report* and the *Job Creation Report* complement it in employment related aspects. The three documents provided valuable data to support our previous findings.

[4] The report prefers to use the word "engaged" than the Word "employed". Cf. IBES (2015).

UNDERSTANDING MICRO AND SMALL ENTERPRISES IN GHANA

Ghana is considered as one of Sub-Saharan Africa´s raising stars. Its domestic economy has been changing in the last 30 years from primarily agriculture-based to primary service-based which allowed to be finally categorized by the World Bank as a lower middle-income country. Furthermore, in recent times, it has built a reputation as one of the most attractive destinations in Africa for investments. Its political stability and democracy, where elections are typically fair and undisputed, has led by example within the region. However, certain short-term economic weaknesses have dampened the country's positive dynamic. Gross Domestic Product (GDP) growth rates have observed a slowdown since 2012. In 2015, services contributed 53.3% of GDP, followed by industry (26.6%) and agriculture (20.2%), that continues being the sector with decreasing growth rates every year.[5]

A fall in exports, caused by volatile prices of commodities, hampered the government's planned infrastructural spending. High inflation is yet another challenge Ghana's economy faces, reaching 17% in 2014. This is associated with high interest rates and a depreciating cedi that lost 30% of its value in 2014, with foreign exchange reserves only covering three months of imports.

One of the main outcomes of the development process is the shift from a more traditional structure of the economy, centered around agriculture and raw materials extraction to a more diversified one, with new sectors emerging. Small entrepreneurial companies are becoming key factor in this process, even if not all of them will eventually survive.

According to Ayyagari, Beck, and Demirgüç-Kunt[6] we can observe two important correlations:

- A positive correlation between GDP per capita and the importance of SME's within the economy.
- A negative correlation between GDP per capita and the size of the informal sector.

Hence, in order to promote an increase in GDP per capita, SME's not only have to grow in importance, they also have to grow out of informality. However, the importance of SMEs growth to achieve a stable place among upper middle-income and high income countries is undeniable.

ENTERPRISE STRUCTURE

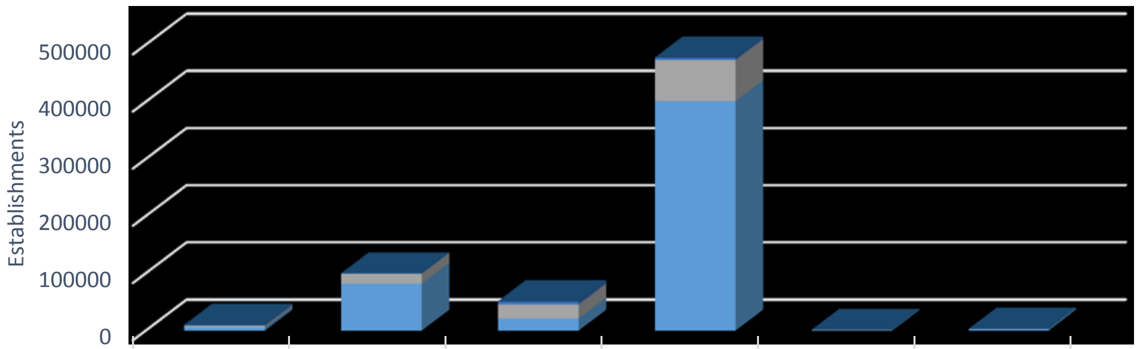
The number of different types of enterprises in one country is dependent on how they are defined and whether the informal part of the economy is included or not. This study adopts the definitions established by the GSS, which organizes enterprises in four categories of establishments: *micro-sized establishments*, which engage no more than five persons; *small-sized establishments*, engaging from six up to 30 persons, *medium-sized* establishments, from 31 to 100 persons *and large-sized* establishments, those engaging more than one hundred persons. If the establishment is registered in the Registrar General´s Department (RGD) and has professionals managing the accounting records, it is considered *formal,* otherwise it is *informal.*

According to those definitions, Ghana´s enterprise structure is dominated by informality (90.5%) and characterized by a large number of micro enterprises on the one hand, and a relatively small number of medium and large enterprises on the other, creating a missing middle of small and medium growth-oriented firms that could articulate firms´ interactions and enhance the country´s economic growth.

[5] Revised 2015 Annual Gross Domestic Product. September 2016 Edition.

[6] Small and Medium Enterprises across the Globe: A New Database" World Bank Policy Research Working Paper 3127, August 2003

Figure 1: Establishment Status by Sector and Size. IBES 2016.



	Industry - Formal	Industry - Informal	Services - Formal	Services - Informal	Agriculture - Formal	Agriculture - Informal
Large	471	73	1357	644	85	10
Medium	729	419	4330	3528	150	76
Small	3252	17222	24231	71793	268	563
Micro	4652	81424	20587	400691	202	1477

It is important to note that the IBES only considers *"non-household establishments"*, hence, in order to be considered, the economic unit had to be legally and physically separated from the household. These establishments engage around 3.5 millions of people. However, according to the official statistics on labor, in 2014 Ghana had 12.3 million people aged 15 years and older that were economically active. This means that the IBES census has left out roughly 9 million of economically active persons in the country.

Given that it is very unlikely that these people are engaged by Small to Large non-household establishments, we can conjecture that the vast majority of them are economically active in household enterprises. Hence, at least in terms of employment, the IBES data underestimate the importance of these type of enterprises for the development of the country.

RATIONALE FOR MSEs DEVELOPMENT

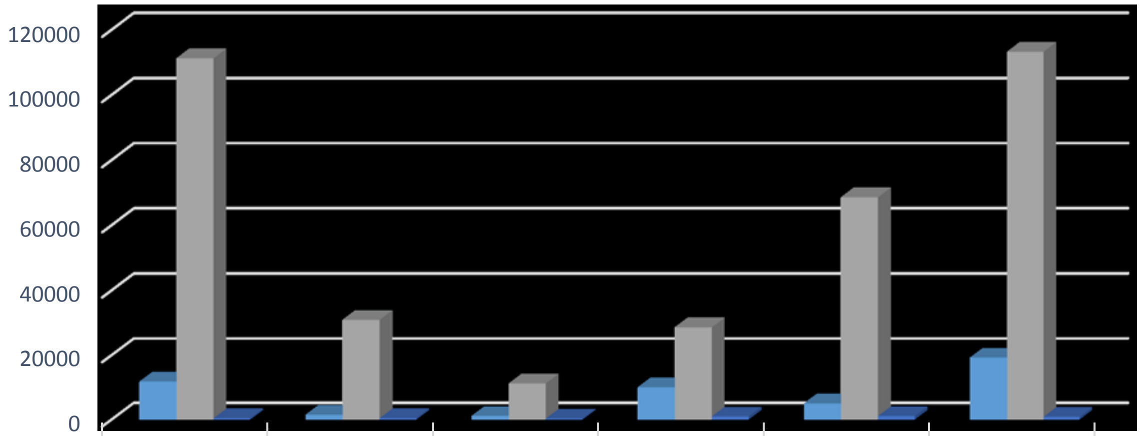
Although the lack of accurate information about the performance of enterprises in Ghana prevents from corroborating MSEs` contribution to the country´s economic development, further analysis estimates that three quarters of Ghanaian households depend on them for at least half of the household's income[7]. It is therefore necessary to recognize their (1) *Importance as major generators of employment*, due to their labor-intensive character, the low skill requirements, and the flexibility of their operations (2) *Usefulness as livelihood strategies* that can help women and low-skilled individuals to reduce their vulnerability, and (3) *Potential for production,* due to their proximity and knowledge of the local market, flexibility and low-cost production resources.

MAJOR GENERATORS OF EMPLOYMENT

"*Younger MEs employ more persons in Ghana than the large old ones, based on the absolute total persons engaged"*[8]. Out of a total of 638,234 establishments censed by IBES, 98.1% were MSEs covering 62.1% of the total of the people engaged censed, while medium and large sized account together for only 1.9% of the establishments and engage 12,5% and 25,4% of the individuals respectively.

[7] IFAD, Ghana: Rural Financial Services Project, 2000. Pre-Appraisal Mission. Working Paper: "Re-Packing the Rural Finance Sub-sector in Ghana Poverty Gender and Rural Informal Sector Perspectives" and Working Paper: "Strategy for Mainstreaming Gender in Ghana."
[8] National Employment Report. Ghana Statistical Service. September 2015.

Figure 2: Job Creation by sector, size and formality/informality of the establishment. IBES 2016



	Micro	Small	Medium	Large	Total Formal	Total Informal
Industry	11715	1383	1052	9945	4915	19180
Service	111144	30843	11118	28536	68479	113162
Agriculture	312	355	203	886	1003	753

Industry Service Agriculture

In terms of job creation Figure 2 shows how informal enterprises have a dominant role[9], recording the highest number of all new jobs in the Service sector (53.6%)[10]. Deeper analysis shows that the higher proportion of people engaged, and jobs created, took place in MSEs from the wholesale and retail trade subsector, indicating the pervasiveness of small and domestic trading activities in the economy. The least number of new jobs was created by medium sized enterprises. It is also worth mentioning that 64% of the new jobs were created by informal enterprises, although these informal enterprises also recorded more pronounced job losses across regions, which could be attributed to the protracted power crisis, according to the Job Creation Report 2016.

LIVELIHOOD STRATEGIES THAT PROMOTE WELFARE OF WOMEN AND LOW-SKILLED INDIVIDUALS

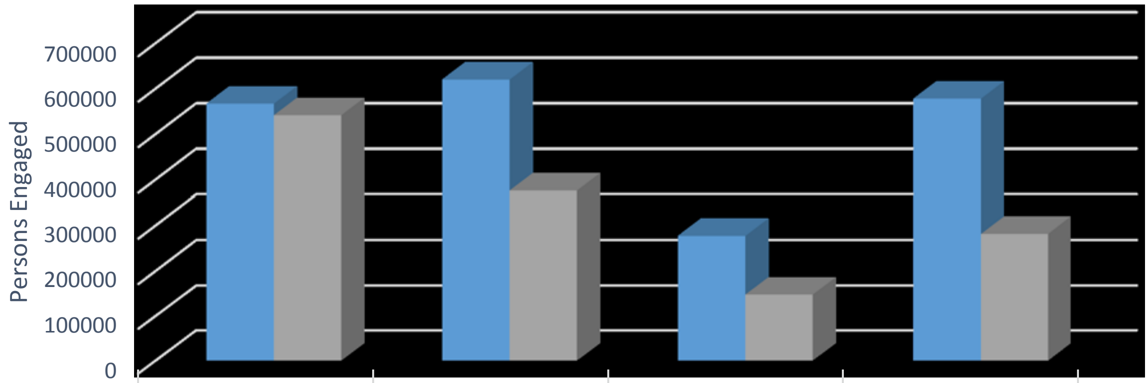
Further segmentation of figures reveals that MSEs play an important role for women and low skilled individuals in Ghana. Figure 3 shows that a larger number of males than females are engaged in all the various sized establishment classifications except in MEs, where there was almost parity in the proportion of employed females (50.2%) and males (49.8%). In the case of both large and medium size enterprises, the number of men engaged is about twice that of women (577,367 against 280,886 and 276,356 against 147,222 respectively). The fact that there is relative dominance of women among the current active population (5.89% male, 6.41% female)[11] suggest that there might be a vast number of women that work in *"informal household enterprises".*

[9] Job Creation is the "net new job", the job that is created without displacing any job in the economy.

[10] The IBES Reports concludes that "*there should be conscious effort at growing micro-sized establishments into medium and large-sized establishments since their growth has the potential to create employment and thereby contribute to the reduction of unemployment levels in Ghana". Pag 65.*

[11] Labor Force Report, Ghana Living Standards Survey Round 6. Ghana Statistical Service, August 2014.

Figure 3: Distribution of Persons Engaged by Gender and Size of the Establishment. IBES 2016.



	Micro	Small	Medium	Large
Male	566187	619113	276365	577367
Female	540784	375282	147222	280886

While results also show that the majority of the persons engaged by all type of establishments are skilled[12], constituting 78% of the persons employed, MEs engaged the highest number of unskilled workers, (71.7%), followed by SEs (39.3%). Those figures are probably having negative implications for firm productivity, showing that there is a need for training of the workforce of MSEs. The number of unskilled persons engaged declines with increasing size of establishments while the reverse is the case for the engagement of skilled persons.

Similar patterns can be found in the case of permanent and temporary jobs. MEs record the highest share of temporary workers (19.9%), followed by SEs (18.4%). Women only have the lead in temporary jobs in microenterprises. Permanent employment is only dominant in Large and Medium Sized enterprises and skilled individuals.

POTENTIAL FOR PRODUCTION IN LABOR INTENSIVE INDUSTRIES

MSEs´ major contribution to the Ghanaian GDP is realized mostly through the provision of products and services to both, consumers and/or other enterprises. The service sector has the largest share of enterprises of all sizes, with 82.6% of the total, followed by industry (17%). In both sectors the informality and micro-size of the enterprises is predominant.

MEs in the services sector dedicated to wholesale and retail trade are the ones engaging the biggest number of individuals (475,604 individuals, 14% of the total), these are followed by micro-manufacture enterprises (engaging 163,813 individuals 4.8% of the total). On the other hand, medium-sized establishments engaging more people are the ones in education, but only reaching 1.4% of the total. Large-sized establishments with more engagements are found in the manufacturing sector (2.6% of the total individuals).[13]

The IBES covered agricultural activities managed by establishments and therefore it considers only "*institutional agriculture*", which explains the low engagement figures in the sector. Nevertheless, data suggests that informal microenterprises are driving the transition of resources from a strongly agriculture based economy to a more diversified one, and could play a bigger role satisfying a raising local demand, specializing and supporting larger firms with products and services.

[12] The IBES considered *skilled persons* to those who are engaged in their field of training, otherwise they are *unskilled*.

[13] Own elaboration with data from the IBES Summary report, Table A37: Distribution of persons engaged in establishments by size and economic activities. Page 112.

CHALLENGES FACED BY MSEs

The development of MSEs in Africa is a dynamic process that takes place within challenging market environments. MSEs´ births and closures take place at a very fast path and hardly any of them grow substantially to make the transition to small, medium or large enterprises.

MSEs in Ghana are present in all sectors, represent a wide variety of enterprise sizes, technology levels, degrees of informality, etc., ranging from a street vendor or the chop bar of the corner, to a MFI facilitating innovative financial services or a sophisticated enterprise selling products abroad. Hence, entrepreneurs may or may not be poor, and enterprises may or not be growth oriented.

Due to MSEs´ heterogeneity they are affected differently by macroeconomic and business constrains and/or by their individual and firm´s characteristics and growth orientations. For example, lack of sustainable access to electricity may be big constraint for a small manufacture firm but not for a small farmer, staff tertiary education is going to have bigger impact on a law firm, than in a restaurant, and a widow, mother of 7, may be more averse to taking risks with the business than a single man that just finished his studies in the university and wants to start an entrepreneurial endeavor. Hence, although recognizing the need of major control for the sectors and subsectors when attributing specific MSEs characteristics and growth challenges, this section offers a brief overview of a few facts that are constraining MSEs opportunities.

ENTREPRENEURS AND FIRM-LEVEL CHARACTERISTICS

Household and MSEs are generally less resilient than larger firms to minor income shocks. When adverse events happen, entrepreneurs sometimes have to take actions that influence negatively the business and the family, such as depleting productive assets, reducing food intake, or withdrawing children from school. In order to understand which personal factors of the entrepreneur and of the enterprise, could positively or negatively impact the enterprises´ survival and growth trajectories, authors interviewed MSEs of different sectors across 7 regions in Ghana. Results from the survey showed the following:

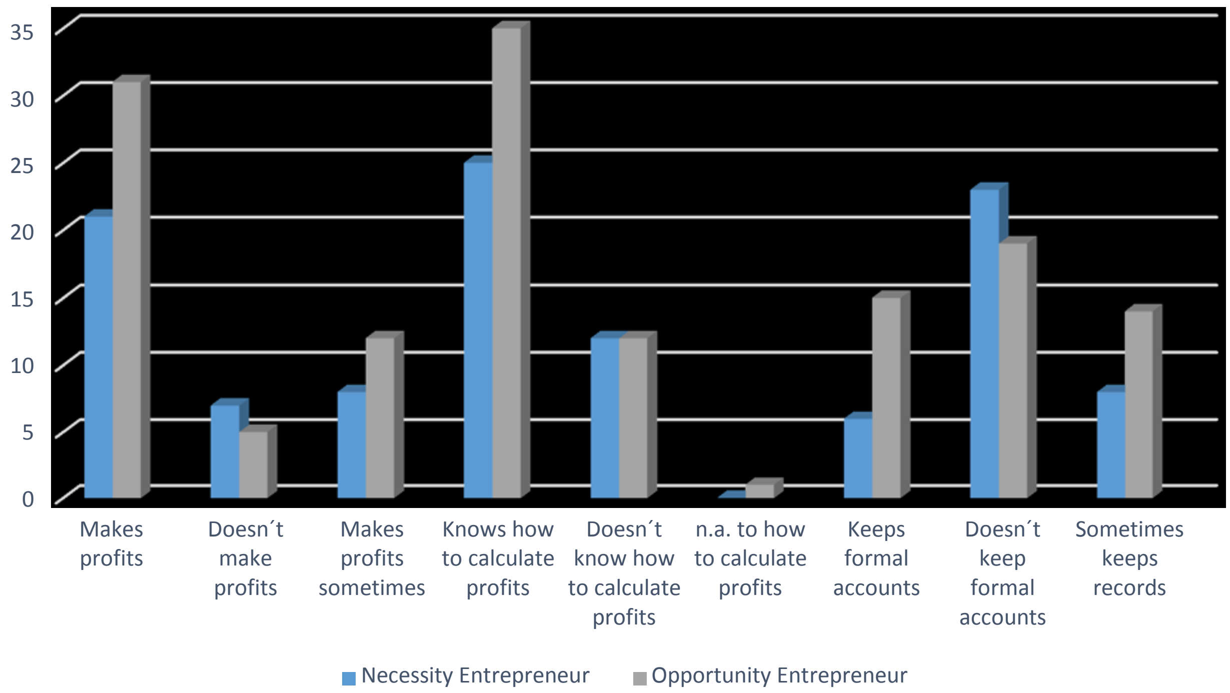
Young and Informal: All the entrepreneurs interviewed operated out of their homes, in small rented premises and relied on local markets due to workloads, lack of value chains, or because of their dual responsibility (business and family). Their lifespan at the moment of the interview was around 9 years. They had been able to survive after the start-up phase, but only few of them had expanded and the possibilities of further development remain uncertain. As only 20% of the MSEs interviewed kept some kind of business records, according to the GSS´s definition of formality, 80% of the enterprises were informal.

Vulnerable to Family Risks: Without a detailed analysis of data on earnings and other explanatory variables, such us level of training, hours of work, or location, it is difficult to assess their growth or failure prospects, but the analysis of the interviews showed that "*family*" and "*business"* represent the same economic unit (76% of respondents declared to use daily revenues to cover family expenses) and therefore, aside of facing business related risks, they face household risks related to the difficulties of meeting basic needs of health, food, housing and leading a normal life.

Subsistence Entrepreneurship: Around 90% of the MSEs were created influenced by push factors and conceived as a permanent economic activity and a source of long-term income. Among the reasons that acted as drivers of their entrepreneurial activities, "*families´ financial needs*", "*the impossibility of finding another job"*, and "*the fact of combining business and house work"* were the ones mentioned more often. Less than 10% of the respondents indicated pull factors such as "*desire of Independence"* and "*good business opportunities"* as main drivers for taking the decision. Furthermore, 42% of the respondents would take a paid job if they were offered one, i.e. they can be called "necessity" entrepreneurs as opposed to "opportunity" entrepreneurs.

Weak Managerial Structures and Lack of Business´ Records: Microenterprises visited didn´t exhibit any managerial structure or formalized and systematic internal organization based on a defined division of labor or greater specialization, which could help them improve their efficiency and productivity levels. Rather, they entailed little division of labor or production organization, and relied primarily on existing skills, day-to-day needs and/or market demands. Management questions and planning cycles (production/purchasing of the product, selling to the customer) were solved on a day-to-day basis, based on needs rather than in a planned or systematic way, limiting their long-term growth potential. Around 77% of the entrepreneurs were not able to answer how they calculate profits and 80% of them declared not to maintain any formal account or record of the business, making it difficult therefore to ascertain their financial performance.

Figure 4. Perspective clients and managerial charactieristics.



Lack of Education and Specialized Training: Almost 30% of respondents had not finished primary education. Even including the results of those who had reach tertiary education, the majority of them didn´t have adequate business skills or know-how, since they lack formal vocational training and were using the skills acquired through practice in the past (by serving as apprentices, or passed down in the family) for income generating purposes. Only around 3% of the respondents had received specific technical training because of their own decision and without network or government support.

Low Capital Input and Labor Intensive MEs had had different financial needs from their start-up phase, but the minimum capital used was 100Ghc (25€), and the maximum 10.000GhC (2.500€). The size of the loans requested later on to invest in the business fluctuated between 100GhC (25€) and 20.000GhC (5.000€). Almost 100% of the MEs visited relied heavily on the labor for its production. The level of mechanization showed was low, equipment used was self-crafted or bought locally, with subsequent creative improvements made, and the technology employed was basic or in weak conditions. It was noticed that the smaller the firm the less access it had to inputs into the productive process such as knowledge of effective production techniques, management procedures, etc. forcing entrepreneurs to remain close to its suppliers and consumers.

Weak Working Conditions: Most MEs interviewed presented a very low level of organization regarding labor, and personal relationships seemed to be more important than contractual ones. Personnel also included family labor (even children´s labor) or apprentices paid in-kind, presenting little or no job security. Among entrepreneurs, 40% declared not to have a salary, 40% said they had a salary but not fixed (they just take the cash that is left by the end of the day), and only 20% had a fixed salary at the end of the month. Regarding social security, less than 10% mentioned to have their own social security services covered. None of the employees interviewed had a written contract, and therefore they would not be able to take any legal action in case of any unfair dismissal or any other problem with the enterprise.

From Sectors with Small Growth Rates: Although all the MSEs interviewed were part of industries with low growth rates, and the size of the sample was too small to be representative, woman seemed to operate in smaller and more traditional businesses, such as retail trading, production of different types of handicrafts and food processing activities and were using more obsolete technologies that those of men. Some of them had move out from the subsistence mode and added activities and/or products to their portfolio progressively, but without reaching a level of specialization yet.

Low Opportunistic Behavior, especially among women: The majority of entrepreneurs didn't have clear growth intentions, but instead, saw the enterprises as a way to make small and regular contributions to family income, while their husbands were having other professional strategies with additional growth opportunities (private or government work, higher return activities, travelling opportunities to have better opportunities/prices/quality, etc.). When asking about the future of the business, the majority of them answer "*to expand",* but none of them had elaborated plans to scale up their businesses in scope or complexity.

Risk Averse: All respondents declared to have built up their business gradually, starting with low capital (between 100-15.000GhC equivalent to 25€-3750€) provided by family members in most cases, diversifying the business (items or services) or switching from one business to another according to what appeared profitable to them. Those measures taken, intentionally or unintentionally, allowed them to reduce income-shocks and to combine family care with a micro productive activity, but also restricted their business income. Results suggest that the type of activity chosen to operate had been based on the ability, skills and capacity of the entrepreneurs, including the business unit´s resource requirements and the ease of access to them.

Lack of Financial Literacy: It was also found that the levels of financial illiteracy among entrepreneurs were very high. Among those respondents who declared to have borrowed in the past, 30% didn´t know the interest rate of their loan or how it was calculated, 67% knew the amount in cedis but not the percentage, and only 5% were able to explain in a comprehensive way the interest rates of their loans. This could be another reason why the use of financial services in general was low among the respondents.

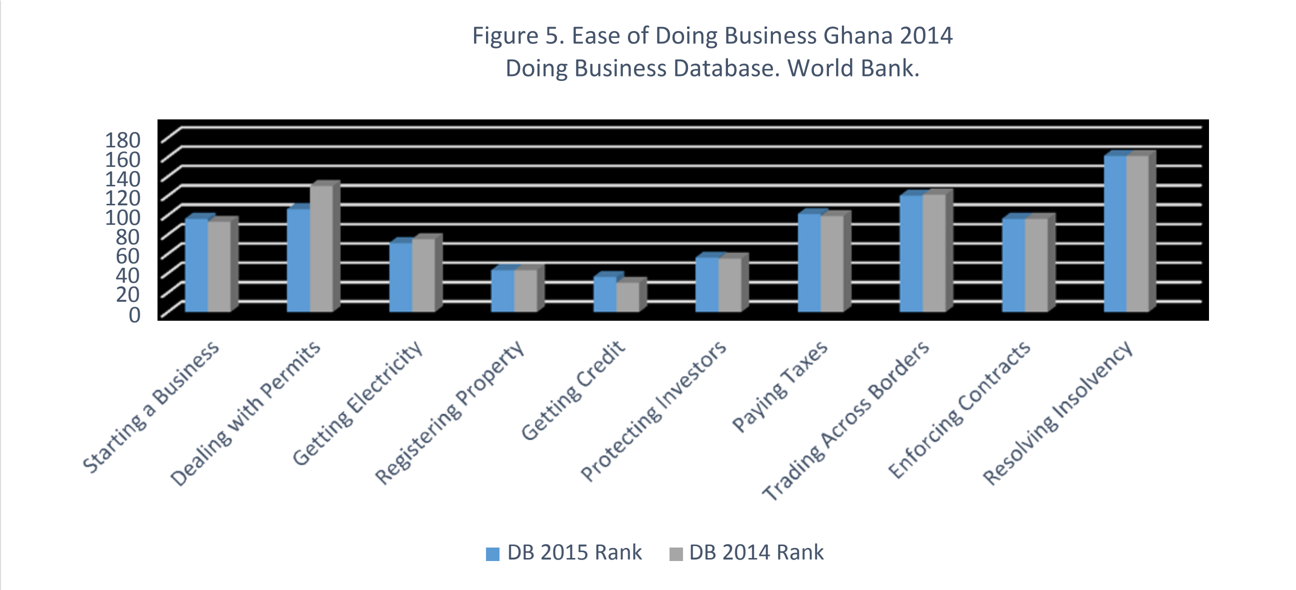
BUSINESS ENVIRONMENT

The overall situation of the economy affects directly the availability of business opportunities. Enterprises, independently of their size, need macro and political stability, an open trade régime an efficient legal and regulatory system and the appropriate physical infrastructure to function more productively (De Soto, 2001; Sethuraman, 1997) and access to support services that allow to grow and have a bigger impact in society in the form of increase income of individuals and employment. This section offers a review of selected factors that have been identified as constrainers of MSEs´ survival and/or growth opportunities.

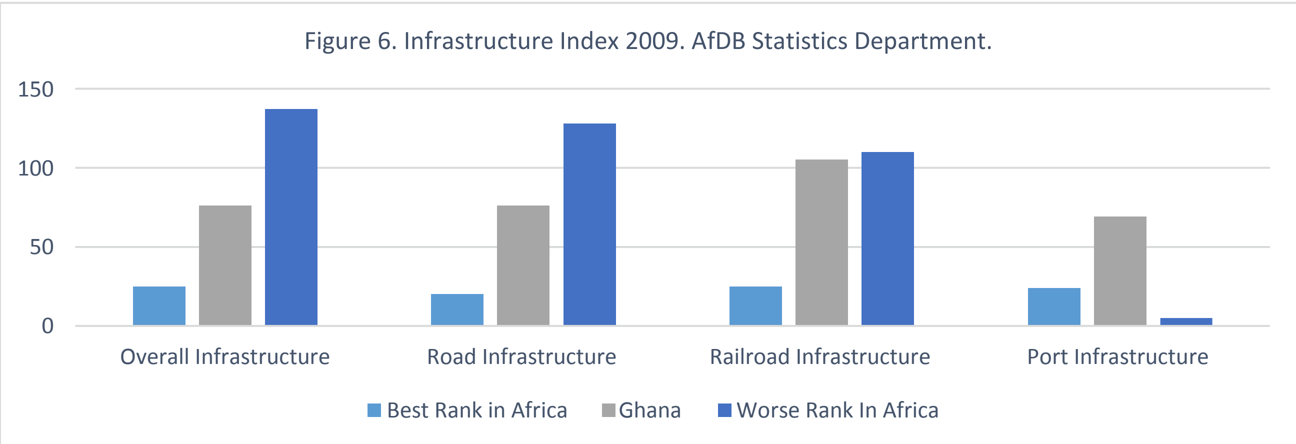
Ease of Creating and Maintaining a Formal Business: The Government of Ghana has increased incentives for MSEs to enter the formal economy focusing on eliminating unnecessary and cumbersome regulations, reducing red tape, improving labor rights, reducing inefficient taxes and helping enterprises to register and dealing with permits, etc.[14] , but the country continues having widespread informality and therefore preventing a big number of MSEs from growing.

While recognizing the importance of continuing with those efforts, after interviewing micro and small entrepreneurs, we believe that widespread informality, cannot be overcome only by creating policies and simplification regulation. From a cultural point of view, the image of formalization as a difficult process with potentially negative consequences (e.g. more taxes to be paid) has to be changed into something positive that brings with it services and Security, and therefore government efforts should also go in that way.

[14] Ease of Doing Business. Ghana 2014. http://www.doingbusiness.org/data/exploreeconomies/ghana/



Weak Infrastructure: Ghana is currently ranked behind the best performing countries in Africa (Figure 6), positioning "infrastructure" as a major obstacle to growth. Some of the most important shortfalls identified were weak transport systems, precarious water and sanitation supply and unstable power supply. Ghana's infrastructure gap during the 2006-2007 was already estimated to be about 7% of GDP and about half of it was associated with shortfalls in power sector (alone)[15]. Although there is still no data about the effects of the Dumsor (the latest electricity crisis) on the economy yet, we could predict that it could have had a similar effect.



Unavailability of Business Development Services (BDS): Microentrepreneurs need to perform a wide number of different tasks. They are frequently responsible for managing all the areas of their enterprises (purchasing raw materials, producing goods and services, managing inventory, taking care of sales, doing financial accounting and managing staff). In Ghana, BDS started to be supported by government since the *Economic Recovery Program* of 1983, but currently are not widely available in the country, and in many cases are not affordable, accessible or adapted to MSEs most basic capacity building needs (especially when considering household and MEs). Among the reasons for not achieving the potential of their programs, key stakeholders

[15] *"Republic of Ghana Country Strategy Paper 2012-2016"*, African Development Bank and African Development Fund.

from institutions providing these services[16], mention lack of proper financial and logistics´ capacity for the programs, ineffective organizational structure or weak leadership.

Weak Social Networks and lack of Value Chain Opportunities: In countries where illiteracy levels are high and availability of information about markets is low, social links allow an exchange of information and resources that sometimes is the only way of obtaining support among MSEs[17]. In Ghana there are some organizations providing network and value chain opportunities to Medium and Large enterprises, but, at a ME level, the nature of most of these networks is informal. 100% of the entrepreneurs interviewed declared to have no idea of institutions providing network opportunities to them, and we hardly observed interaction among enterprises (larger enterprise-MSE) apart from the basic supply chain (65% have never had any formal link with other enterprises and 80% have never had a subcontracting arrangement with larger enterprises.).

The *Association of Small Scale Industries* (ASSI), and the *Ghana Association of Women Entrepreneurs* (GAWE) are some of the most active associations, offering services such as market information dissemination, economic networking, technology transfer, value chain opportunities, promotion of non-traditional exports and advocacy and lobby to enhance the active participation of Ghanaian entrepreneurs in both the national and global economies, but both agreed that their own main challenges as associations are the lack of financial and human resources (they are almost operated in a voluntary basis) necessary to reach a representative number MSEs in the country.

Lack of Access to Financial Products and Services: Results showed the financial exclusion of these enterprises. Over 80% of the respondents started up with their own savings and family help rather than with loans (12%). Less than 4% of the enterprises surveyed mentioned to have a bank account for the business and although 62% of the respondents declared to have a personal account in a formal institution, results suggest that the use of the account was limited to savings and that all the financial transactions (payments of wages, supplies, utility bills and taxes) of these type of businesses are made in cash.

Entrepreneurs interviewed, declared to rely on short term funds (4-6 months) from different formal and informal financiers, with interest rates varying between 36% - 200% p.a. and amounts ranging 100GhC-15.000GhC. With those terms, this kind of financing allows covering emergencies or basic needs, but prevents from making big investments such as purchasing modern machinery or equipment and technology to scale up their business. Here we observe a clear gap in the financing available to MEs: they can access small short-term survival financing but they cannot access medium-term financing and they are too small and informal to access the proper long-term venture financing. We can call this the "missing middle of finance" and it is one of the major constrains to the growth of these enterprises.

They ranked their difficulties in accessing these loans as follows: 54% cited high interest rates, 16% the lack of collateral and 10% found the process complicated. Other answers included difficulties like *distance*, *mistreatment*, and *lack of communication* with the lending institution.

Despite difficulties, entrepreneurs in Ghana seem to be very interested in accessing finance for the business growth needs, as the majority of those who had requested a loan in the past year, would do it again. Numerous studies[18] suggest that strong, well-established, efficient and properly utilized financial systems act as drivers of economic growth, financial stability, employment opportunities, reduction in inequality and development of middle income classes in developing countries[19].

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[16] Such as the National Board of Small Scale Industries (NBSSI), the Association of Ghana Industries (AGI), EMPRETEC Foundation, Business Sector Advocacy Challenge Fund and The Enterprise Development Services (EDS) Centre.

[17] According to an impact-study elaborated by the United Nations Industrial Development Organization (UNIDO) in 2008, in countries where capital markets are not developed, financial disclosure limited and labour laws are weak, interpersonal networks allow MEs to reduce transaction costs and risks and improve learning and information-sharing possibilities.

[18] Kirkpatrick-2005, Quartey 2005, Sutton and Jenkins 2007, Honohan 2007, Beck 2007.

[19] *Where is the Cheese? Synthesizing a Giant Literature on the Causes and Consequences of Financial Sector Development*, Pasali, World Bank, 2013.

FINANCIAL INCLUSION IN GHANA

CURRENT SITUATION

Financial inclusion[20], at its most basic level, starts with having a bank account[21]. According to the 2014 edition of the Global Findex Database[22], in Ghana only 35% of adult population (+15) had an account in a financial institution, despite an increase of 6% compared to the information available in 2011. Hence, large gaps still remain, as 65% of the population remains excluded[23].

Table 1: Account Ownership 2011-2014

Global Financial Inclusion Database	ADULTS		MALE		FEMALE		POOREST 40%		RURAL	
Country profile: Ghana	**2011**	**2014**	**2011**	**2014**	**2011**	**2014**	**2011**	**2014**	**2011**	**2014**
Account Ownership	-	41%	-	42%	-	39%	-	30%	-	35%
Account at a Financial Institution	29%	35%	32%	34%	27%	34%	17%	24%	25%	30%
Mobile account	-	13%	-	14%	-	12%	-	8%	-	10%

Source: Own elaboration with data from the Global Financial Inclusion Database 2014, World Bank.

The use of the accounts is also still far from being comprehensive in Ghana. It is mostly limited to send and receive domestic remittances. The situation regarding the availability and usage of other financial services is worse. In 2014, only 19% of adults reported having saved in a formal financial institution. The share of formal saving has increased in general, but the alternative of saving by using susu savings has grown faster.

Table 2: Savings 2011-2014

Global Financial Inclusion Database	ADULTS		MALE		FEMALE		POOREST 40%		RURAL	
Country profile: Ghana	**2011**	**2014**	**2011**	**2014**	**2011**	**2014**	**2011**	**2014**	**2011**	**2014**
Saved or set aside any money	37%	55%	39%	58%	34%	53%	23%	48%	33%	54%
Saved at a financial institution	16%	19%	18%	18%	14%	19%	5%	12%	12%	13%
Saved with clubs/persons outside the family	10%	22%	9%	23%	10%	20%	6%	19%	9%	19%

Source: Own elaboration with data from the Global Financial Inclusion Database 2014, World Bank.

The primary reason for saving is to cover education expenses, followed by emergencies and investments in business activities. [24] In 2014, 36% of adults reported having borrowed money in the past 12 months. *Family and Friends* is the most frequently reported source of new loans (22%) even if its share is declining. Less than 10% of adults borrowed from a formal institution, and less than 5% did it from a private informal lender. Among the reasons for borrowing, 9% reported having borrowed in the past 12 months for health or medical purposes, 10% percent for education, and only 10% for a business.

[20] Financial inclusion starts by participating in the monetized economy and is defined by the Centre for Financial Inclusion as "*a state in which everyone who can use them, has acces to a full suite of quality financial services, provided at affordable prices, in a convenient manner, with respect and dignity. Furthermore, financial services are delivered by a range of providers, in a stable, competitive market to financially capable clients*".

[21] The 2014 Global Findex database defines account ownership as "*having an account either at a financial institution or through a mobile money provider*".

[22] The Global Financial Inclusion database, launched by the World Bank in 2011, provides comparable indicators showing how people around the world save, borrow, make payments, and manage risk.

[23]According to the same World Bank report, in high-income OECD economies account ownership is almost universal: 94 percent of adults reported having an account in 2014.

[24] http://databank.worldbank.org/data/reports.aspx?source=1228

Table 3: Borrowings 2011-2014

Global Financial Inclusion Database	ADULTS		MALE		FEMALE		POOREST 40%		RURAL	
Country profile: Ghana	**2011**	**2014**	**2011**	**2014**	**2011**	**2014**	**2011**	**2014**	**2011**	**2014**
Borrowed any money past year	-	36%	-	38%	-	35%	-	34%	-	34%
Borrowed from a Financial Institution	6%	8%	6%	7%	6%	9%	5%	6%	4%	6%
Borrowed from a private informal lender	3%	4%	2%	4%	5%	5%	4%	4%	-	4%
Borrowed from a store by buying on credit	5%	4%	4%	5%	6%	4%	6%	3%	7%	4%
Borrowed from an employer	3%	-	3%	-	3%	-	3%	-	-	-
Borrowed from family or friends	29%	22%	30%	23%	28%	24%	36%	20%	29%	21%

Source: Own elaboration with data from the Global Financial Inclusion Database 2014, World Bank.

Additionally, another sector starting to be developed is the insurance sector. This sector has seen rapid growth over the past few years. The market is regulated by *The National Insurance Commission* (NIC) which is responsible for licensing, setting standards, and approving insurance premium and commission rates. As at June 2015[25], the insurance industry was made up of 25 Non-Life companies, 21 Life companies, 3 Reinsurance companies, 69 Broking companies, 1 Loss Adjuster, 1 Reinsurance Broker, and 6000 insurance agents, covering only 1% of the population.

The micro insurance sector in Ghana is dominated by Star Micro Insurance Services. About 60% of their policies are credit protection Policies, although they also offer funeral policies, hospitalization cash products, and child education products. In 2013, insurance industry stakeholders started to review the draft insurance bill which would address limitations of the existing Insurance Act 724 (2006). Among other things the bill is going to support product development for critical sectors, and will prioritize licensing for specialized insurers.

THE BIGGEST GAPS

It is important to pay special attention to the situation of some groups such as *"the poorest 40% households", "rural population" and "women"*. Among adults in the poorest 40% of household, the situation is more challenging as still 76%, of them remain unserved. Among the rural population, while account ownership remains almost at the same levels of 2011 (30%), there has been an important increase in savings, from 34% in 2011 to 54% in 2014. In our sample, around 48% of our respondents declared to have saved in the last 12 months, but only 12% did it in a formal institution, while 19% reported saving by using an informal savings club. Regarding borrowings, 34% of the respondents declared to have borrowed, but only 6% did it formally.

On the other hand, the gender gap is narrowing. Even if the percentage of account ownership is still lower for women (39%) than for men (42%), if we look at accounts with a formal institution the percentages are the same (34%). In terms of savings, again women save less than men (53% vs 58%), but they do it almost in the same percentage through a formal institution. Hence men seem to have a greater access to informal saving channels than women.

In conclusion, financial exclusion in Ghana is still a problem and is particularly severe among the poorest 40% of the population, among the rural population and among women. Informal institutions play a very important role for savings, whereas family and friends do it for borrowing.

FOCUS ON THE MICROFINANCE SECTOR

EVOLUTION

Well-functioning and inclusive financial systems allow broad access to financial services and are likely to benefit disadvantaged groups. It already has been recognized worldwide that legal and regulatory structures are key for financial inclusion. In Ghana the birth of these structures has been highly marked by the history of the country over the 20th century and have enabled the transition from informal and agricultural lending, to rural finance and finally to microfinance[26], to start thinking, in the past years, about financial inclusion, showing government efforts to find the right balance between encouraging entry and innovation on one side and protecting clients by avoiding the easy entry of institutions with weak management and internal controls on the other. In this context we have identified the following stages[27]:

1900-60s, Informal Microfinance and Subsidized Agricultural Credit Programs: Prior to the independency main sources of credit for the majority of the population were families and friends joining together to improve their living conditions, or moneylenders and traders charging very high interest rates. As poverty was prevalent in the rural areas, government developed massive subsidized agricultural credit programs with weak results and a small impact. Informal credit suppliers, such us moneylenders and credit unions, started being recognized and having a legal basis.

70's- 80´s, Rural Finance: National programs continued with the same weak performance, but Rural and Community Banks (RCBs) emerged from special banking rules to provide a wider range of financial services to rural and peri-urban areas. Donors and international organizations collaborated with the government in the design of specific policies, laws, regulations and programs to strengthen the capacity of institutions.

90´s- 2000s, Institutionalization of microfinance: Government actions allowed banks and other institutions to operate on a commercial basis, free from official intervention. Reform measures included liberalizing interest rates, eliminating administrative credit allocation, and strengthening the role of Central Bank in regulating and supervising all financial institutions. Microfinance started to be recognized under new and concrete policies and regulations. With lower barriers of entry, there was a proliferation of commercial MFIs, being able to serve rural, peri-urban and urban communities[28], but many of them lack sufficient capacity, governance, transparency and accountability to act as responsible financial intermediaries.

2010-2016, From microfinance to Financial Inclusion: With a sector with increasing incidents of reported fraud, corruption and insolvency, regulators and policy-makers were forced to change their approach, tightening up requirements of entry in an effort to sanitize the industry and protect the final users. BoG created a tier system in 2011 based on nature of MFIs´ activities, establish prudential regulation over tier 1, 2 and 3 MFIs and gave importance to apex bodies as mouthpieces for each type of MFIs. These guidelines were updated again in 2013 and from 2014, MoFEP and BoG started working in a Financial Inclusion Strategy with the collaboration of key stakeholders of the sector, which is intended to cover actions around 5 pillars: (1) Financial Stability, (2) Access, Quality and Usage of Financial Services, (3) Financial Infrastructure, (4) Financial Consumer Protection and, (5) Financial Literacy.

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[26] The most complete definition of "Microfinance" appears in their Microfinance Policy, 2006 from the government of Ghana: "*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*"[26]

[27]Our proposal is a modified version of the periodification proposed in "General Background of microfinance Trends", Ministry of Finance and Economic Planning. http://www.mofep.gov.gh/sites/default/files/pages/microfinance_0.pdf

[28] During the 2000s there was a big increase on the number of MFIs that led to an increase in the number of clients of microfinance institutions, growing from 1.3 million total clients in 2001 to 3.5 million in 2006 and over 6.5 million in 2012 (*Performance Monitoring and Benchmarking of Microfinance Institutions in Ghana, Trends in the industry during the 2000´s*. GHAMFIN 2014).

KEY MICROFINANCE STAKEHOLDERS

Official Institutions: The Government of Ghana, is in charge of formulating the overall development strategy, that has to be passed by Parliament. Latest efforts to promote financial inclusion have been implemented within the framework of the *Ghana Shared Growth and Development Agenda II*[29] (GSGDA)which specifically encourages the development of policies and strategies to make credit affordable to the private sector and increase savings´ mobilization. To put this into action, a special role is given to the microfinance sector and powers are conferred to The MoFEP which is in charge of promulgating and implementing sound financial sector policies and to the BoG that has the responsibility to ensure the soundness and stability of the financial intermediaries. Any approvals, disputes or the imposition of sanctions take place in the Courts.

Supporting Institutions: there are a series of organizations collaborating to strengthen the capacity of the microfinance sector and lobbying for its interests. Among them, GHAMFIN, a network of a diverse range of actors, is the leading institution trying to bring the different stakeholders together, promoting transparency and higher business standards, finding solutions to build the capacity of the members and advocating for the interest of the industry. It also coordinates and supports the Apex Bodies[30]**,** umbrella associations for the different types of MFIs, created by mandate of the BoG to "*provide quality financial and technical services to its members; develop training programs (…) maintain a comprehensive database on members (…) and monitoring and evaluation their operations"*[31]*.* Other actors include development partners, private international NGOs, universities and training and research institutions[32].

Microfinance institutions: in 2011 the BoG, through the "*Operating Rules and Guidelines for Microfinance Institutions"*, an amendment of the NBFIs Act (Act 774), reorganized the different types of MFIs in tiers. Formal financial institutions such as RCBs, Savings & Loans companies (S&L) are at the top, mentioned as part of the microfinance sector but regulated by banking laws. They are followed by former semiformal institutions such as Cooperatives, (regulated separately) and microfinance companies, comprising tier 2 institutions and FNGOs and Moneylenders companies, which are considered tier 3, becoming all of them formal institutions (registered companies and licensed by BoG). Former informal intermediaries such as individual moneylenders and susu collectors, have been converted into semi-formal providers (registered in the Register General department, but not licensed and supervised by BoG, but for the Apex Body).[33]

Such a tiered system has defined regulatory requirements and permissive activities for each type of MFI. As tiers descend, regulation becomes less demanding and the number of activities permitted is limited, until you reach the bottom, where licensing from the BoG is deemed not necessary anymore. It also creates pathways for institutions situated at the bottom, to "go up the ladder" in search for sustainability and growth. As long as they fulfill the new tier´s regulatory requirements, they are able provide more financial products and services and gain greater access to financial resources themselves.

Table 4 shows the diverse set of MFIs in Ghana. Though the end product offered by these institutions is the same, that is savings and/or credit, in kind or cash, the legal and ownership structures, target clients, terms & conditions, respective operations ´roadmap and delivery mechanisms of the practitioners varies widely.

[29] GSGDA I and II are based on seven thematic areas: (1) Ensuring and sustaining macroeconomic stability; (2) Enhanced competitiveness of Ghana's private sector; (3) Accelerated agricultural modernization and natural resource management; (4) Oil and gas development; (5) Infrastructure and human settlements development; (6) Human development, employment and productivity; and (7) Transparent and accountable governance.

[30] Currently there are 7 Apex Bodies whose performance levels vary significantly: The Association of Rural Banks (ARB), Ghana Association of Savings & Loans Companies (GHASALC), Ghana Credit Unions Associations (GCUA), The Ghana Association of Microfinance Companies (GAMC), The Association of Financial Non-Governmental Organizations (ASSFIN), The Money Lenders Association (MLAG) and The Ghana Co-operative Susu Collectors' Association (GCSCA).

[31] Ghana Microfinance Policy 2006, p.17.

[32] International Monetary Fund, World Bank and the German and Danish Development Agencies. Only few private international organizations support the sector (Transparency International, Social Performance Task Force and Financieros sin Fronteras, the NGO from IE University and IE Business School).

[33] Other informal self-help groups as roscas, ascas, etc. continue to exist in the country.

Table 4. Microfinance Institutions in Ghana

TYPE OF MFI	DEFINITION	LICENSED/IN FORMAL	PRODUCTS	TARGET MARKET	OWNERSHIP	LEGAL STRUCTURE	CAPITAL REQUIRM	PRINCIPAL LEGAL BASIS	FUNDING SOURCE	AGENCY SUPERV
Rural Banks (Tier 1)	Networks of independent unit banks focused on rural areas.	138/0	Savings Deposits Long/Med/Short Term Loans Overdrafts and Money Transfers Consum/Work Cap Loans	Agricultural MSMEs	Community Owned BoG has preffered shares	Limited by Shares Unit Bank	15.000.000 GhC (3.750.000€)	Companies Act, 1963 (Act 179) Banking Act 2004 (Act 673), Banking Act 2007 (amendment) (Act 738), ARB Apex Bank Regulations (L1 1825)	Government Grants ARB Apex Bank Deposits	BoG
Savings & Loans Co. (Tier 1)	Profit-making companies that have adapted the traditional Susu and money lending methodologies.	22/0	Savings Deposits Long/Med/Short Term Loans Money Transfers Investments Consum/Work Cap Loans	MSMLEs Farmers	Private Parties (International & Ghanaians)	Limited by Shares	15.000 000 GhC (3.750.000€)	Banking Act, 2004 (Act 673) Banking Act 2007 (amendment Act 738), Companies Act, 1963 (Act 179)	Loans Deposits Equity Capital	BoG
Microfinance Co. (Tier 2)	Private companies which before used to have "Susu", "microfinance," "capital" or "financial services" in their name.	364/630	Savings Deposits Investments Consum/Work Cap Loans	MSMEs Individuals	Private Parties (Ghanaians)	Limited by Shares	500.000 GhC (125.000€)	Companies Act, 1963 (Act 179) NBFIs 2008, Act (774)	Grants and Loans Deposits Equity Capital	BoG
Credit Unions (Tier 2)	Individuals mobilizing funds regularly so that when needed, can get a credit with an minimum interest rate.	451/150	Savings Deposits Consumption Loans Working Capital Loans	Members	Individuals and Associations (Ghanaians)	Cooperative Society	Not applicable	Co-operative Societies Act 1968 (NLCD 258)	Members´Shared Capital Deposits	CUA
FNGOs (Tier 3)	NGOs providing microcredits and non-financial support to low income populations and women.	43/150	Short Term Working Capital Loans Non-Financial Services	Household & MSEs	Private Parties (International & Ghanaians)	NGO Limited by Guarantee	300.000GhC (75.000€)	Companies Act, 1963 (Act 179) NBFIs 2008, Act (774)	Grants and Loans Equity Capital Donations	BoG
Money Lenders Co. (Tier 3)	Profit making co. allowed to provide microcredits in a comercial basis.	50/167	Consumption Loans Working Capital Loans	Household, MSEs and Individuals	Private Parties (International & Ghanaians)	Limited by Shares	300.000GhC (75.000€)	Companies Act, 1963 (Act 179) NBFIs 2008, Act (774)	Loans Equity Capital	BoG
Money Lenders Indiv. (Tier 4)	Individuals allowed to provide microcredits in a commercial basis.	189/980	Consumption Loans Working Capital Loans	Household & MSEs Individuals	Private Parties (International % Ghanaians)	Sole Proprietorship	Not applicable	Companies Act, 1963 (Act 179) NBFIs 2008, Act (774)	Loans Equity Capital	MLAG
Susu Collectors (Tier 4)	Collectors of daily savings for a period of 31 days, keeping one day's contribution as commission.	494/1200	1 month deposits	Individuals Household & MSEs	Private Parties (International & Ghanaians)	Sole Proprietorship	Not applicable	Companies Act, 1963 (Act 179) NBFIs 2008, Act (774)	Deposits	GCSCA

According to the latest data provided by GHAMFIN, the microfinance sector as of December 2012[34] was reaching a total of 6,551,065 individuals and was dominated by savings-led rather than credit-led institutions. The biggest share of the market (64%) was taken by RCBs, followed by S&L. FNGOs reached only a very limited number of clients.

Table 5: Ghana´s Microfinance Industry as of Dec. 2012

	Number of:			Portfolio (GhC mill)		Total	Total Clients %
Type of Institution	**IMFs Reporting**	**Depositors**	**Borrowers**	**Deposits**	**Loans**	**Clients**	**%**
Rural & Community Banks	133	4.165.889	90.0685	1.185,6	648,5	4.165.889	63,60%
Savings & Loans Co.	12	1.058.083	138.336	470,5	421,7	1.058.083	16,20%
Credit Unions	444	465.206	149.255	382,1	319,7	465.206	7,10%
FNGOs	20	-	207.919	-	13,4	207.919	3,20%
Susu Collectors	480	186.679	-	8,5	-	186.679	2,80%
Microfinance Companies	226	467.289	192.751	152,7	128,9	467289	7,10%
Total	1315	6.343.146	1.588.946	2.199,4	1.532,2	6.551.065	100%

Source: GHAMFIN. Performance Monitoring and Benchmarking of MFIs in Ghana. Trends in the Industry during the 2000s.

The same report documented that FNGOs had the lowest levels of profitability. Nonetheless, they also had the lowest cost per borrower and a Yield on Gross Loan Portfolio in line with other type of institutions. They were also characterized by the lowest Debt over Equity ratio and the highest Gross Loan Portfolio over Total Assets ratio.

Finally, FNGOs had by far the highest percentage of women clients. In 2012, around 84% of FNGOs' clients were female, followed by susu collectors and microfinance companies. Other types of institution increased their share of women clients, but still kept a strong preference for men. Hence, within the microfinance sector, they appear to be the institutions that target those more financially excluded and that get more involved with them. They depend heavily on equity funding and are struggling to be profitable.

IMPORTANCE OF FNGOs IN GHANA

We have seen that, despite of having one of the most vibrant financial markets in Africa, with 29 banks, 138 RCB, 22 Savings & Loans companies and more than 500 licensed Non-Banking Financial Institutions (NBFIs), formal financial institutions in Ghana cater for less than 35% of the population's financial service needs. Our data also shows that the problems of household enterprises and MSEs are not only related to financing. Entrepreneurs have serious problems in terms of managerial capability and strategic vision. This fact increases information asymmetries regarding their enterprises' performance and prevents Tier 2 MFIs from estimating correctly their potential risks and returns.

Moreover, the transaction costs of serving these clients are high relative to the small loan size (100-1500GhC). Hence, in order to serve them it is necessary to have lower cost of funds and very efficient operations with the use of specific methodologies so that the cost is not passed on to the client such as loan analysis based on client´s ability to pay to substitute collateral, credit with education, group lending, specific training and incentives for loan officers to keep quality of the portfolio, control mechanisms, etc. These techniques may not be profitable for traditional banks and Tier 2 MFI. Moreover, while serving these clients you need to have the ability to overcome the lack of trust in formal financial institutions documented by our interviews. Only if this is accomplished, there is hope that over time these vulnerable clients can graduate and become clients of bigger (Tier 2) MFI and/or of proper commercial banks.

[34] Performance Monitoring & Benchmarking of MFIs in Ghana, Trends in the Industry During the 2000s (2006 -2012).

Despite the fact that in Ghana FNGOs´ have failed so far in terms of outreach and sustainability[35], by looking at the characteristics of the various type of microfinance institutions presented in Table XXX, and the experience of the authors in the field, FNGOs stand out as the type of MFIs that could more easily:

- Act as financial intermediary of more disadvantaged social groups (woman, household and microenterprises, including small farmers) not served by other MFIs in the country, due to their "unorganized, unprotected, unregistered and informal" situation.
- Provide tailor-made social support services such as financial literacy, skills training, business management, family planning, health education, which allow to provide a holistic approach to microenterprise development and reduce basic vulnerabilities of the individuals. (100% of FNGOs clients received training while only 38% of the clients of other types of MFIs received training).
- Experiment at reasonable risk with short-term loans, testing their clients´ ability to borrow, invest, save and repay, due to the knowledge of the client. (65% of FNGOs clients found it easy to repay, while only 33% of the other MFIs clients found it easy;),
- Reach out to larger number of clients in unserved areas through group lending to reduce transaction costs and guarantee the loans (FNGOs have the lower cost per borrower since 2006 according to GHAMFIN).
- Overcome challenges related to their client´s fear of using financial services, as they are the institutions most ready to spend time organizing, training and assessing clients so that they learn how to work with financial intermediaries. Our survey of clients shows that they consider the FNGO as something in line with their community values as opposed to other financial institutions which are perceived as distant and dangerous.

To summarize, our research leads us to identify in Ghana a group of potential clients that are not well served by the financial system: household enterprises and informal microenterprises. This is a problem because these enterprises provide employment to a vast proportion of the population. Their growth is likely to be crucial for the economic development of the country. We identify FNGO as the best candidate to fill this gap and provide these clients the first formal link to the financial system.

For these reasons it is crucial to create the conditions for FNGO to become sustainable because they have the potential to reach the very low income entrepreneurs and help them familiarize with other types of MFIs or banks that could fulfill their financial requirements in the future.

FACTORS DETERMINING THE SUSTAINABILITY AND IMPACT OF FNGOs

It goes without saying that as "MSEs", FNGOs are also influenced by the overall current macroeconomic environment, the infrastructure of the country and other general factors that affect the viability of any enterprise in the country, as explained previously. Any improvement in those areas will also have beneficial effects of the microfinance sector in general and on FNGOs in particular. However, we discuss below a selection of factors that are constraining FNGOs capacity to continue providing their "*holistic approach*" to poverty reduction and MSEs development.

Prudential Regulation Adds New Challenges to FNGOs´ Survival: Ghana is one of the few countries in the world that, contrary to suggested international best practices, subjects non-deposit taking microfinance institutions, to prudential regulation[36]. This poses several challenges not only to the BoG, in charge of supervising an already saturated market, but also to those institutions, that have to convert from FNGOs with a social mission into regulated and supervised financial intermediaries. Almost 82% of the FNGOs surveyed by

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[35] Only 11 FNGOs out of 42 operating in Ghana have obtained the necessary license from the Bank of Ghana, their ROA and ROE are negative or very low, hence their financial sustainability is very questionable. Furthermore, overall they have only reached 207,919 clients in the whole country and the difference they make in poverty reduction is questionable, since there is not available social performance data.

[36] Prudential regulation comprises full prudential supervision and therefore MFIs have to comply with mandatory standards such as minimum capital levels, liquidity management ratios and asset quality standards. It pursues the financial soundness of licensed intermediaries to prevent the instability of the financial system and to protect depositors against losses. International best practices recommend this kind of regulation exclusively for deposit-taking institutions.

us considered regulation the major challenge to achieve sustainability and viability[37]. Our interviews revealed that the more problematic regulatory requirements are the following

- ***Legal status of FNGOs hinders them to meet the capital requirement of 300.000GhC.*** As Not-for profit organizations registered in the Department of Social Welfare, FNGOs have difficulties accessing commercial funding and, as tier 3 institutions, cannot mobilize savings deposits from the public, hence, are financed mainly through equity, although they do not have proper shareholders. In "Equity" we find either money contributed as donations by the founders and/or by the board members or grants received by other institutions, especially international donors and investors and local governmental and non-governmental organizations. A classical funding model for these institutions is as follows. They receive a grant dedicated to microfinance related activities and use it to finance their microloans. This grant is registered as "Equity". They operate under cost and accumulate losses until this "Equity" is consumed and at that point they look for another grant to start the cycle again. In the light of this financing model, it should be more clear why it is so problematic for them to raise GhC 300,000 as the minimum capital maintain while operating.
- ***Sudden requirements of improvement in business standards constrains FNGOs capacity to keep cost of operations controlled:*** FNGOs are now required to prepare annual operational plans, report quarterly of their operations and count with a complete risk management framework which forces them to invest on improving the skills of their staff, computers and appropriate software, security of their premises and activities, etc. This sudden need of upgrading due to BoG deadlines, adds a significant increase in their cost of operations during the transition to formal FNGOs and unless they can negotiate with the providers of their funds (donors, investors, etc.) or find alternative and cheaper sources of funds to meet their new financial needs, FNGOs´ capacity to continue serving the lower income populations with the same financial and non-financial products and under the same conditions may be challenged.
- ***New governance requirements are causing many Board Members 'resignations.*** Regulatory requirements regarding information about FNGOs´ Board Members professional experience, sources of income, tax returns, criminal records, marital status, etc., is causing many resignations, driving institutions to urgently look for new members to meet the requirement of a minimum size of 5, and adapting the structure of their governance structure. We were told that board members were really surprised when they were asked to provide so much "*personal"* information regarding sources of income, tax returns, criminal records, etc. *"to be able to do a voluntary work for the poorer people of the country"*.
- ***The path created for MFIs to "climb up the ladder" of tiers via regulation prevents a smooth transformation of the FNGOs:*** Transforming to a tier 2 Microfinance Company would allow FNGOs to collect deposits and therefore increase their client base and liquidity levels, nevertheless, implies not only challenges related to the costs of "*upgrading human resources, risk management framework, processes and operations"* but also ceding control to a broader group of owners, not longer socially oriented boards of directors, but different types of owners and investors interested in economic returns, which can only be of Ghanaian nationality. FNGOs, that have traditionally been supported by international institutions, would rather prefer to move upwards to tier 1 instead, as in the case of Sinapy Abba Trust, former FNGO that became a S&L, where this restriction doesn´t exist and allows more diversified funding sources. Even if interested, to fulfil the requirements of a S&L Company is currently extremely difficult probably for most of the FNGOs of the country.

Low Operational Capacity of Support Institutions Constraints the Sector´ development: MFIs need support from institutions able to provide the infrastructure and systems that facilitate the activities of the institutions and help them to reduce transaction costs. The lack of credit bureaus (there is only 1 in the country), the

[37] Out of 43 registered FNGOs in ASSFIN, 7 of them with active licenses to operate plus 1 with a provisional license[37], as of October 31st, 2014. In July 2016, the number had increased to 11, although one of them had to stop operations. Other FNGOs had either been rejected and received more time to comply with the requirements, other had applied and were still in the process and the rest had not yet applied.

inexistence of specialized auditing firms or guarantee funds, the scarcity of micro insurance services, etc. may be constraining the effectiveness and efficiencies of FNGOs, already fragile. But specifically, the low human, financial and technical capacity of the Apex bodies, prevents them from performing effectively their core functions of information collection and dissemination and dialogue with government or coordination with donors to organize training programs for their member (the weakness at the association level is reflected in the poor development of other systems at the industry level).

Institutional and Operational Weaknesses Limit Outreach and Challenge Sustainability: Despite the potential of FNGOs to reach the poorest segments of society, we have seen that their impact is limited. Although profitable some years, the lack of financial sustainability is common and their outreach is low. Some firm-level factors causing this situation are as follows:

- **Strategic Planning:** Most institution have a 5-year business plan, although the majority of them admit not use it to make strategic and operational decisions. They have ambiguous objectives and make projections but do not have clear goals (nor financial, neither social), monitor performance or analyze deviations against results. Furthermore, many of them don´t make proper market research about their clients to design products or the potential of economies of scale in the area of operations. Around 55% of respondents see it as something constraining their growth and impact. During the interviews managers agreed that the lack of business planning processes may be hampering their operational and strategic capacity to mobilize resources, reduce costs or expand and the majority of them admitted that the lack of knowledge and technical capacity from board, management and staff is what prevents them from fulfilling that role.
- ***Governance:*** Effective MFI governance is challenged by the reality that the formalization of the sector is relatively young and many institutions are still led by founders, which in most of the cases are also the Managing Directors. Almost 45% of respondents considered *very difficult* to find an appropriate mix of required skills and competencies on the Board and/or to foster or ensure their commitment. This fact is limiting the strategic guidance, impoverishing the decision making processes and weakening the institutions´ oversight of operations and management, necessary to ensure the institution´s impact and long-term survival.
- ***Management Information Systems***. When asked if they believe that they have an adequate information system to submit periodic prudential reports and if they feel ready for on-site inspections, the vast majority of the respondents answers affirmatively. The field experience gained by the authors through their regular field trips to Ghana is in stark contrast with these perceptions. One of the problems that we have always encountered in our visits to FNGOs, is the inability to obtain reliable figures on the total size and composition of the loan portfolio and on the overall financial situation and performance of the institution. The inadequacy of the information systems generates problems in the cash flow management of the organization that often leads to cash crises. So we notice a mismatch between the reality of FNGOs and management perceptions of their situation.
- ***Other operational challenges related to serving the lower income populations.*** FNGOs facilitate a large number of transactions though in small volumes, making their costs of operations high. The Operational Expense/Gross Loan Portfolio of FNGOs ranges from 22% to 39%, compared to 14% of rural banks. FNGOs in Ghana generally recorded a relatively higher median financial Expense/Asset Ratio as compared to the other types of institutions over the period 2006-2013.This means that, on average, it costs the FNGOs more to administer a unit of assets as compared to RCBs and S&Ls). This is, according to managers, principally due to (¡) the illiteracy levels and lack of information about the client´s enterprises, personal identification and/or credit history, which makes FNGOs expend time training clients before disbursement, (2) the low population densities outside the big cities of Ghana, that generally make necessary a huge number of points of operations very spread out and (3) the poor infrastructure and inefficient communication and delivery channels used.

POLICY RECOMMENDATIONS

Household and micro and small entrepreneurs in Ghana (and low income individuals), need to make an intensive use of financial products and services exactly because of the limited size and instability of their income that forces them to plan in advance, to anticipate reductions of their cash flows or unexpected family events, and try to accumulate assets for future bigger investments.

In the first stages of the business, they have simple financial needs such as short-term loans and basic savings accounts. However, as they grow, their needs extend beyond short-term lending and savings products, into a wide range of financial products, including long term loans, (for working capital and fixed assets), deposits (for security, profitability and transactions), and services such as transfers, cash withdrawals and remittances, and insurance schemes. In order to fulfil its desirable effect, those products and services must be adapted to their needs and capabilities, including being understood and received through appropriate delivery channels and with good customer service.

Government efforts to build a healthier and more inclusive financial system have been intensified in the last 10 years, creating a framework of policies, regulations, institutions and initiatives aimed at covering their population financial needs, specially through microfinance. Actions have allowed to create an environment that fosters competition with a wide range of microfinance intermediaries serving an increasing number of different types of clients, but the sector is still failing in terms of outreach and sustainability and the new regulation is adding new challenges and economic costs to both, the regulated institutions, (specially to FNGOs that need to transform from NGOs with a primary social mission into formal financial intermediaries), and the BoG, in charge of supervising through "*off and on – site supervision"* a spread and already saturated market.

Our latest conversations with representatives from government institutions from the financial sector suggest that, after the challenges of the first years of the regulation, and in an effort to sanitize and increase the outreach of the sector, they are currently examining the existing policies, regulations and initiatives for microfinance and working on a unified financial inclusion strategy to cover actions around 5 pillars: (1) Financial Stability, (2) Access, Quality and Usage of Financial Services, (3) Financial Infrastructure, (4) Financial Consumer Protection and, (5) Financial Literacy. In that sense, we consider that before taking further actions, it would be extremely important to:

1. **Make a preliminary country-wide assessment of the full range of microfinance providers (formal and informal) and of household, MSEs and financially excluded individuals,** that identifies MFIs and entrepreneurs´ challenges and growth needs, not only related to access and use of financial products and services but also to the overall business environment and the MFIs and enterprises´ intrinsic characteristics. Including a segmentation by the type of MFI serving them and the subsectors in which the enterprises operate would allow a deeper understanding of the "informal, unorganized and unprotected" entrepreneurs and low-income individuals and would allow to design a more targeted strategy for MFIs and the government institutions in charge of facilitating a good environment to them.
2. **Involve other ministries and related stakeholders.** The new financial inclusion strategy should be led by the Ministry of Finance and Economic Planning with the involvement of the BoG and other stakeholders of the microfinance sector, based on joined efforts with the Ministry of Gender, Children and Social Affairs, due to women participation in microfinance, Ministry of Land, as the informality of land ownership impacts on the access to credit, the Ministry of Education, due to the low financial literacy levels in the country, and the Ministry of Trade and Industry, to make evident the impact of finance on MSEs growth and their importance for the development of the country.

Although the country assessment would bring more light to the specific actions that should be taken at each tier, and ideally will make the government to build a policy with its long-view for this sector that will guide further actions regarding laws and regulations, support initiatives, etc., this study has made evident that current environment for microfinance in the country, imposing too strict regulatory requirements on FNGOs could prevent some of the good functioning ones to continue their operations and therefore, if case of no changes in the tier system, it would be appropriate to study the following actions:

1. **Subject Not-for profit FNGOs to Non-prudential regulation[38], instead of to Current Prudential regulation.** Some FNGOs want to continue with a "*primary social mission*" serving the less advantaged population, using specialized methodologies and approaches, including utilizing subsidized funding to reduce operational and institutional costs of the non-financial services offered (financial education, entrepreneurship development and business development services), essential for developing the capacity of their clients to work with financial institutions, build trust, learn, and enable them not only to cope with the potential risks of getting a loan, but manage it wisely and benefit from it. As credit only institutions, should be only subject to non-prudential regulation through an apex body, which would keep strict control over their businesses´ standards and the compulsory savings taken, in order to protect clients[39]. Some first actions that should be studied are the following:

    - **Eliminate regulatory and licensing requirement:** In the paragraph 1 relating the regulated activity of tier 2 and tier 3 institutions, instead of saying "*all institutions or persons engaged in activities that involve deposit taking or the granting of credit shall obtain a license or an exemption from the Bank of Ghana before commencing or continuing such activities", it should* include the word "voluntary" before "deposit taking", and eliminate the "or the granting of credit", i.e. "*All institutions or persons engaged in activities that involve voluntary deposit taking shall obtain a license or an exemption from the Bank of Ghana before commencing or continuing such activities".*

    - **Strengthen client protection:** In order to protect clients´ compulsory savings taken by FNGOs, the new requirements should specifically state in the "*permissive activities*" section that the escrow account cannot be administered without the approval of both the client and the institution and therefore, it should state: "*All persons or institutions that are engaged in the granting of credit, taking compulsory deposits as collateral for lending, shall held these deposits in an escrow account with a designated commercial bank that shall not be withdrawn without the approval of both the client and the institution".*

2. **Create a specific path that facilitates the transformation of FNGOs into more traditional financial intermediaries.** FNGOs may want to "*transform and climb up the ladder"*, and become for-profit (Tier 2) microfinance institutions, to scale operations, increase access to diversified commercial capital and offer other types of financial products and services. They should have the room to do so without the need to sacrify its social mission and focus only on more "bankable individuals" or on generating return for the investors. In that sense, regulators, supporting institutions and FNGOs should work on a specific program that establishes a path that allows FNGOs to cover their upgrade needs and their growth opportunities while adapting their products, services and customer service. This path should work in a very specific time-frame previously agreed.

3. **Establish ASSFIN as self-regulatory body in charge of supervising the "*business standards*" requirements imposed on *Non-for profit FNGOs* by specifying it in the operating rules and guidelines and monitoring, together with the BoG, *For-profit FNGOs´* transformation process.** As the microfinance sector continues to grow and evolve, ASSFIN can play a major role in supporting the successful transformation of FNGOs into sustainable entities able to develop a range of financial and non-financial services to help their clients. For this purpose, the application and licensing procedure should include "*Register as a member or affiliate of the umbrella association of Tier 3 institutions" and should keep the already specified prudential*

[38] Non-prudential regulation provides standards of business operations and has the goal of protecting the clients from undesirable actions committed by MFIs (fraud, abusive interest rates, consumer protection, tax and accounting issues, etc.). It demands the submission of operating and audited financial reports to the supervisory body.

[39] Credit-only FNGOs take compulsory savings as cash collaterals and put it in an escrow account at the institutions´ own names. In case of fraud or failure of the institution when their clients are at the end of their repayment terms or in between consecutive loans, the compulsory savings would exceed the loan balance and the clients would have no option to get their savings back.

oversight, but make it compulsory only for for-profit FNGOs and include "prudential reporting for non-for profit FNGOs: Umbrella Associations of Tier 3 institutions shall collect and collate statistics on the operations of their members and furnish this to the Bank of Ghana periodically as may be determined".

Other necessary actions that should be taking into consideration are:

1. **Strengthen the human and technical capacity of ASSFIN:** Currently ASSFIN is too dependent on donors and fees and the lack of financing prevents them from having the necessary operational capacity to serve their members. The issue of potential for financial sustainability via MFI members' willingness and ability to pay, can be addressed via modifying the operating rules and guidelines, but the association also needs to build skills and capacity and demonstrate value to its members. Therefore, the human and technical capacity of ASSFIN should be supported by government in early stages of development in order to position the association to:
   - Help the BoG in monitoring for profit FNGOs in the fulfillment of the new regulatory requirements and be in charge of the supervision (off-site and on-site) of the minimum business standards imposed on the non for profit FNGOs, except by the requirements of a minimum level of capital and of a gearing ratio that should be eliminated.
   - Help establish and uphold standards in performance, responsible finance and client protection.
   - Provide members with training and support services, like advocacy with government and policymakers, networking, access to funds, participate in the credit bureau, etc.
   - Develop partnerships with government and donors to develop industry infrastructure.
2. **Promote the involvement of the private sector.** There should be a further development of support services like technical assistance, specialized microfinance audit and rating services, development of insurance products for MFIs and their clients, strengthening of the credit bureau, promotion of cost-effective distribution channels through technology, to enhance competitiveness and efficiency of the sector.
3. **Strengthen institutional capacity of Not for Profit FNGOs to deliver their microcredit products adapted to the needs and capabilities of the lower income populations in a sustainable way:** FNGOs should clarify their vision, set social goals and take action towards the sustainability of their institutions to expand their reach. This should be based on: development of products focused on clients (based on a clear understanding of target clients' needs and capabilities), improve internal governance, transparency and accountability, strengthen the technical capacity of staff and improve operational, financial, portfolio and social performance management by adopting appropriate MIS.

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ANNEX 1: INSTITUTIONS VISITED AND INDIVIDUALS INTERVIEWED

- **Ministry of Finance and Economic Planning:**
    - Financial Services Department: Mrs. Magdalene Apenteng (Head of Department).
    - Rural and Agricultural Program: Mr. Yaw Brantuo (Program Coordinator) and Mr. Raymond Mensah, (M&E Specialist).
- **Ministry of Gender, Children and Social Affairs**, Mrs. Cudjoe (Research Department).
- **Bank of Ghana**
    - Financial Institutions Supervision Department: Mr. Joseph Kofi Amoa-Awuah (Head of Department).
    - Policy and Regulation Department (Under "Other Financial Institutions Department): Mr. Yaw Gyima-Larbi (Head of Department).
- **Ghana Microfinance Institutions Network (GHAMFIN),** Mr. Yaw Gyamfi (Executive Secretary).
- **Ghana Association of Microfinance Companies (GHAMC),** Mr. Mr. Richard Amaning and Mr. Joseph Kwame Donkor (Managing Directors).
- **Association of Financial Non-Govermental Organizations (ASSFIN),** Mr. Victor Darko (Executive Director).
- **Money Lenders Association Ghana (MLAG),** Mr. Frank Mawutor (Executive Director).
- **Ghana Associations of Savings and Loans (GHASAL),** Mrs. Eunice Brako Marfo (Executive Director).
- **Ghana Cooperative Credit Unions Associations (GCCUA),** Emmanuel Darko (General Manager).
- **Ghana Cooperative Susu Collectors Association (GCSCA),** Mr. Obed Yaw Asamany (General Secretary).
- **Ghana Revenue Authority,** Mr. Shaibu Musah Gutare (Revenue Officer, Commissioner General's Secretariat).
- **Ghana Statistical Service,** Mr. Anthony Krakah, Head (Industrial Statistics/National IBES Coordinator).
- **Registrar General´s Department**, Mr. Joseph Tamakloe (Chief State Attorney).
- **Association of Ghana Industries,** Mr. Kwame O. Adjekum (Business Development Manager)
- **Business Sector Advocacy Challenge Fund (BUSAC),** Mr. Ebenezer Holyson Kpentey (Communications and IT Specialist).
- **Ghana investment promotion Center,** Mrs. Frances M. Kyiamah, and Dr. Richard Adjei, (Principal Investment Promotion Officers, Research & Business Development).
- **EMPRETEC Foundation,** Mrs. Elizabeth Mfoafo (Executive Director).
- **National Board of Small Scale industries (NBSSI),** Mrs. Philomena Dsane (Senior advisor to the Chief Executive's Secretariat).
- **Association of Small Scale Industries** (ASSI) Mr. Moomi Said (National General Secretary).
- **Ghana Association of Women Entrepreneurs (GAWA),** Mrs. Lucia Quachey (National General Secretary).
- **Support Program for Enterprise Empowerment and Development** (Speed), Mr. Samuel Kwesi Platt, (SFFL Accounts Officer).
- **Federation of Associations of Ghanaians Exporters**, Mrs. Nancy Quarshie (Executive Secretary).
- **Calvary Enterprise Development Foundation FNGO (CEDEF),** Mr. Magnus Amoa-Bosompem (Executive Secretary).
- **Youth and Social Enterprise Fund FNGO (YSEF),** Mr. Stanley Walters Attafi (Executive Secretary).
- **Alternative Sets of Assistance Initiative FNGO (ASA INITIATIVE),** Mrs. Veronica Agodoa Kitti (Executive Secretary).

These experts, with their practical knowledge and understanding of the Microfinance Sector and the situation of household and MSEs in Ghana, have provided insights that helped to identify the research areas and the nature of problems.

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