

REMARKS BY DR H.A. K. WAMPAH, FIRST DEPUTY GOVERNOR, BANK OF GHANA, AT THE WORKSHOP ON RESPONSIBLE FINANCE UNDER THE AUSPICES OF THE KfW ACCRA OFFICE, ON TUESDAY, MAY 31, 2011

I feel honoured to address this august group of professionals who have come together to discuss issues under the theme 'Responsible Finance'. The workshop is being organized at a very crucial time, especially coming after the recent world financial crises and the need for countries to put in place measures to ensure a healthy functioning of their financial systems.

This workshop, therefore, presents participants, an opportunity for reflection and stock taking on the current structure and state of microfinance in Ghana as well as provide an avenue for intellectual brainstorming on how to develop a responsible financial system.

Today's event is also very important because it marks yet another milestone in the existing relationship between Ghana and Germany. We are thus witnessing a further deepening of the relationship between these two countries, which I believe, have always found common grounds to solidify existing bonds.

Mr. Chairman, according to Vikram Pandit (May 2010), the Chief Executive Officer of Citigroup Inc., “we cannot live without the financial system, but we do not have to accept its excesses.” In 2008, the whole world woke up to the climax of a world “financial shock” that started evolving in 2007 and which threatened the very existence of advanced, emerging market and poor economies.

While efforts have been made worldwide by most governments in averting a prolonged economic crisis resulting from the distortions in the global financial system, one clear established fact is that the irresponsible behavior on the part of some players in the financial sector as well as weak oversight by financial regulators were part to blame for the crisis and its ramifications worldwide. “Irresponsible” financing practices not only hurt the targeted beneficiaries but tend to jeopardize long-term financial viability. The Global financial crisis has brought about increased global demand for transparency, accountability and responsibility in all aspects of financial dealings.

The Meaning of Responsible Finance

Mr. Chairman, let me now talk a little about the concept of Responsible Finance. This topic is becoming increasingly an important discussion topic at various international fora,

particularly following the advent of the Global Financial Crisis, and is considered to be one of the primary responses to the financial crisis. Responsible Finance can mean substantially different things to different people.

The Governor of the Bank of Albania, Mr Ardian Fullani (March 2010), defines "Responsible Finance" as banking practices that are designed to create a fair balance of interests between a finance institution and other stakeholders.

The Citi Bank Group, in their Annual Report of 2010 on the other hand, describes the purpose of "Responsible Finance" as making sure actions of entities are in their clients' interests, create economic value and are systemically responsible. Responsible Finance from the Citi Bank Group's point of view focuses on providing customers a guarantee for the soundness of financial institutions and therefore of the entire financial system.

From a Central Bank's point of view, Responsible Finance begins with sound supervision of the banking and financial system. It constitutes an obligation on the central bank to provide savers with a system of strong financial institutions that ensures that the conduct of their operations are in line with the best business principles and international standards.

It should also be recognized that the principle of Responsible Finance has been applied through prudential supervision and preservation of financial stability and the harmonization of monetary and fiscal policies. In that regard Responsible Finance may not only be viewed as a supervisory and prudential role of the Central Bank but could be considered also as an integral and essential part in monetary and fiscal policy decision-making process.

Microfinance and Over-indebtedness

Mr. Chairman, another area which is currently engaging the attention of policy makers is the Microfinance sector. Infact the Central Bank is critically looking at the operations of Microfinance Institutions in Ghana with a view to streamlining their operations and making them more relevant to the whole process of growth. This sector has grown at a tremendous pace in emerging market economies and Ghana is no exception. The role of these institutions in ensuring credit availability to the poor people and small entrepreneurs is critical in the sustainability of growth in poor and emerging economies. They have provided an avenue of financial services to the disadvantaged segment of the population who by design cannot avail themselves of the services of the traditional banks and financial institutions. When

properly harnessed, Microfinance institutions could become one of the main vehicles through which poverty could be eliminated.

However, in recent times, cracks and fissures have emerged and micro financiers are being accused of seeking abnormal profits from the poor through over-lending and the charging of high interest rates. The result is that over time microfinance borrowers have become over-indebted to these institutions.

While acknowledging that repayment of loans is necessary for the very existence of these microfinance institutions, the impact their actions exert on the nucleus of the family can be disastrous. I am made to understand that in India, the number of farmers who have committed suicide as a result of their inability to repay their facilities has risen at an alarming rate.

Mr. Chairman, this evolving disturbing trend in the microfinance sector should be a concern for all as this has the tendency to steer the world economy towards another mini financial crisis and which could also have disastrous implications for the alleviation of poverty.

It is therefore necessary for all stakeholders to be prudent in their dealings and for micro-lenders to possibly adopt guiding principles such as transparency, confidentiality, fair pricing and information access, among others, in their approach towards issues relating to microfinance.

Ghana has taken cognizance of these emerging developments in the microfinance sector of the banking industry and in particular the problems that may arise with reference to supervision and data collection on their activities. This is very important as the Central Bank has, in recent times, observed an upsurge in the establishment of microfinance institutions. In a bid to instil discipline and ensure sanity in the sector, the Bank of Ghana has worked to ensure that the following structures have been put in place:

- Established a Microfinance Supervision Unit within the Banking Supervision Department of the Bank of Ghana.
- In line with the establishment of the Microfinance Supervision Unit, the Bank has put in place appropriate training programs for staff of the Unit.
- The Bank is in the process of finalizing Operating Guidelines and Operational Manuals for Microfinance Institutions in Ghana.
- The Bank is actively involved in organizing stakeholder workshops for microfinance institutions in the southern and northern sectors of Ghana with the main aim of exchanging ideas.

Conclusion

Mr. Chairman, your Excellencies, Ladies and Gentlemen, it is important to note that economic growth and development is highly dependent on the financial decisions of economic agents and the health of the entire financial system. The more transparent these decisions are made the more stable the financial sector becomes. The sector is then able to discharge its mandate appropriately.

It is therefore important that financial institutions provide clients with precise and useful information with the ultimate objective of bridging the gaps associated with information asymmetry. Information asymmetry creates distortions, and actions should be geared towards bridging these gaps both on the part of the institutions and the clients. Clients in turn have to analyze results of their financial activities as much as possible and make reasonable decisions. This is the hallmark of Responsible Finance.

The Bank of Ghana is fully committed and will play its part in assisting the financial sector to remain safe for customers whilst ensuring that financial institutions provide responsible finance.

On behalf of the management of the Bank of Ghana, I wish you success in your deliberations.

Thank you for your attention.