

BANK OF GHANA

NOTICE TO BANKS, NON-BANK FINANCIAL INSTITUTIONS AND THE GENERAL PUBLIC

NOTICE NO. BG/GOV/SEC/2011/04

OPERATING RULES AND GUIDELINES FOR MICROFINANCE INSTITUTIONS

In pursuance of the provisions of the Non-bank Financial Institutions Act, 2008 (Act 774) and the Banking Act, 2004 (Act 673) as amended by Act 738, the Bank of Ghana hereby issues the following Rules and Guidelines for the information of the general public and for compliance by all individuals and entities operating in the microfinance sub-sector. For the avoidance of doubt, Rural and Community Banks (RCBs), Savings and Loans Companies and other financial intermediaries already regulated under the Banking Act shall continue to be so regulated. All other intermediaries such as Susu companies and Susu collectors, money lenders and other financial service providers shall comply with this Notice.

Regulated Activity

1. The taking of deposits and the granting of credit for whatever tenor constitutes regulated activity under the Banking Act, 2004 as amended and the Non-bank Financial Institutions Act. Except where expressly exempted in writing by the Bank of Ghana, persons and or institutions undertaking such activity require a licence issued by the Bank of Ghana.
2. All institutions or persons engaged in activities that involve deposit taking or the granting of credit shall obtain a licence or an exemption from the Bank of Ghana before commencing or continuing such activities.
3. Institutions that were in existence or persons engaged in such activities before the coming into force of the Non-bank Financial Institutions Act 2008 or this Notice, whose source of authorization is a repealed legislation such as the Money Lenders Ordinance (Cap 176) are hereby directed to take steps to be re-licensed by the Bank of Ghana.

Categorization of Activities

For the purposes of this Notice the following categorization shall apply to all activities in the microfinance sub-sector:

1. Tier 1 activities shall comprise those undertaken by Rural and Community Banks, Finance Houses and Savings and Loans Companies – These institutions are regulated under the Banking Act, 2004 (Act 673).

2. Tier 2 activities – Those activities undertaken by
 - i. Susu companies and other financial service providers, including Financial Non-Governmental Organizations (FNGOs) that are deposit taking and profit making.
 - ii. Credit Unions. However, credit unions are not regulated under this Notice. A Legislative Instrument under the Non-Bank Financial Institutions (NBFI) Act, 2008 will soon be passed to regulate their activities.

3. Tier 3 Activities – Those activities undertaken by
 - i. Money lenders
 - ii. Non-deposit taking Financial Non-Governmental Organizations (FNGOs).

Money lenders and Financial NGOs are encouraged to belong to an umbrella Association. FNGOs desiring to take deposits shall convert from companies limited by guarantee to companies limited by shares.

4. Tier 4 activities – Those activities undertaken by
 - i. Susu collectors whether or not previously registered with the Ghana Cooperative Susu Collectors Association (GCSCA);
 - ii. Individual money lenders.

Individuals and entities engaged in the above activities are encouraged to form associations for the purpose of furthering their objectives and or dealing with regulators and other stakeholders.

Regulatory Requirements

Tier 1 Activities

These are regulated under the Banking Act 2004 (Act 673), ARB Apex Bank Regulations, 2006 (LI 1825), the Non-bank Financial Institutions Act, 2008 (Act 774) and respective Notices and Circulars issued by the Bank of Ghana.

Tier 2 Activities

The following regulatory and supervisory requirements shall apply to all Tier 2 category activities:

- 1. *Business form:*** All Tier 2 activities, except credit unions, shall be undertaken by companies limited by shares. Companies undertaking Tier 2 activities shall include the word 'microfinance' in their names.
- 2. *Capital:*** Institutions in this category shall hold an initial minimum paid up capital of not less than GH¢100,000.00 for one unit office. The opening of branch(es) shall be subject to higher capital requirements. Tier 2 institutions shall, in addition to the minimum capital requirement determined by the Bank of Ghana also maintain a minimum capital adequacy ratio of 10%.
- 3. *Branch expansion:*** Tier 2 institutions shall be eligible to establish branches subject to prior approval of the Bank of Ghana and compliance with the higher capital requirement as determined by the Bank of Ghana.
- 4. *Permissible Activities:*** Tier 2 institutions shall undertake the following:
 - i. Accept deposits from the public. No single deposit shall exceed 5% of the Company's paid up capital.
 - ii. Make loans to their customers as follows:
 - a. a ceiling of 5% of the company's net worth for unsecured exposures;
 - b. a ceiling of 20% of the company's net worth for secured exposures; and
 - c. a ceiling of 1% of the Company's networth per member of the group for group loans
 - iii. Tier 2 institutions may only undertake any other services with prior written authorization of the Bank of Ghana.
- 5. *Non Permissible Activities:*** Tier 2 institutions shall not undertake the following:
 - a. issue checking accounts;

- b. engage in foreign exchange business; and
- c. engage in any trading activities or hold any stocks of goods for sale to their clients.

6. Prudential Oversight:

- i. Tier 2 institutions shall submit periodic prudential reports to the Bank of Ghana, of varying periodicity as may be determined by the Bank of Ghana.
- ii. Tier 2 institutions may be subject to on-site supervision of such periodicity as may be determined by the Bank of Ghana.
- iii. An operating licence shall be subject to annual renewal upon satisfactory performance and payment of the appropriate licence renewal fee.

Tier 3 Activities

1. **Business form:** All Tier 3 activities shall be undertaken by companies limited by shares (Money lenders) or companies limited by guarantee (FNGOs). Companies undertaking money lending activities shall include the words 'Money lending' in their names. Companies undertaking non-deposit taking microfinance activities shall include the acronym 'FNGO' in their names.
2. **Capital:** Tier 3 institutions shall maintain a minimum paid-up capital of GH¢60,000. In addition, they shall maintain a gearing ratio not exceeding eight (8) times their capital.
3. **Branch expansion:** Tier 3 institutions shall be eligible to establish branches subject to the prior approval of the Bank of Ghana and compliance with any other conditions determined by the Bank of Ghana.
4. **Permissible activities:** Tier 3 institutions shall undertake the following:
 - i. The granting of micro-loans to their customers provided an unsecured loan shall not exceed 10% of the paid up capital of the entity.
 - ii. The raising of funds, excluding deposits, from high net worth individuals, wholesale sources and donors. This activity shall be subject to observance of a minimum tenor for borrowing of not less

than ninety days and a gearing ratio of not more than 8 times the paid up capital.

- iii. Any other services subject to written authorization by the Bank of Ghana.
- iv. In the case where money lenders or non-deposit taking FNGOs receive deposits as collateral for lending, these shall be held in an escrow account with a designated commercial bank.

5. Prudential Oversight

- i. Tier 3 institutions shall submit periodic prudential reports to the Bank of Ghana, of varying periodicity as may be determined by the Bank of Ghana.
- ii. Tier 3 institutions may be subject to on-site supervision of such periodicity as may be determined by the Bank of Ghana.
- iii. An operating licence shall be subject to annual renewal upon satisfactory performance and payment of an annual licence renewal fee.

Tier 4 Activities

Tier 4 activities comprise those activities undertaken by individual Susu collectors, Susu enterprises (with a registered business name), individual money lenders and money lending enterprises. They may operate in a defined geographical area such as a market or a suburb.

- i. ***Business form:*** Tier 4 activities may be undertaken by individuals or by enterprises with a registered business name. All Tier 4 operators shall belong to an umbrella Association such as the Ghana Cooperative Susu Collectors Association (GCSCA). The registered business name of susu enterprises shall include the word 'susu'. The registered business names of money lending enterprises shall include the words 'money lending'.

Individual money lenders are advised to form an Association as a platform for educating and informing each other as well as a forum for interacting with regulators and other stakeholders.

- ii. ***Capital:*** There shall be no minimum capital requirement for an individual Susu collector or money lender. However, each registered

member of an umbrella Association shall contribute to an Insurance Fund to be set up by the Association.

- iii. ***Permissible Activities:*** Tier 4 institutions shall engage in Susu collection or money lending only. Susu collection involves the periodic collection of deposits from the general public and the refund of such accumulated deposits at the designated times for a fee. Money lending shall involve the granting of credit for such tenors as agreed between the lender and the borrower.
- iv. ***Branch expansion:*** Tier 4 operators shall carry out their activities within a defined geographical area such as a town, city, a market or a suburb and shall not operate branches, except with the prior written approval of the Bank of Ghana.
- v. ***Prudential Reporting:*** Umbrella Associations of Tier 4 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.

Licensing Requirements

The licensing requirements for microfinance institutions are attached to this Notice as Appendix 1 and the same is a part of this Notice.

Effective Date of Notice

This Notice takes immediate effect and is applicable to all existing and prospective operators in the microfinance sub-sector.

Transitional Period

Existing operators have a period of six months from the date of this Notice to take steps to regularize their operations with the Bank of Ghana or wind up.

Amendments or modifications to this Notice

The Bank of Ghana may amend or modify this Notice as it deems fit from time to time.

(Sgd.)

ALEX BERNASKO
THE SECRETARY

July 11, 2011