ISSN No:-2456-2165

Overview of Microfinance Institutions and the Ghanaian Economy

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Abstract:- Microfinance institutions constitute a major aspect of developed and developing countries. The institutions play a significant role in the Ghanaian economy as well as other sub-Saharan African. Microfinance institution in Ghana consist of many enterprises, and they create employment, reduce poverty, financing small and medium enterprises, contributes to Gross Domestic Product, increasing savings, investment, economic growth, and development. The government and key stakeholders, supporting the institutions attested that the institution provides effective and efficient economic growth and development. Microfinance institutions' integral role in the Ghanaian economy has become a great source of inspiration for many researchers, academicians, regulators, and policymakers, to study microfinance from different directions and perspectives. This paper presents the evolution of microfinance institutions in Ghana, their contribution to economic development and Gross Domestic Product, the state of the Ghanaian economy, and the regulatory bodies. Again, Information concerning data sources is also provided and finally, conclusions and recommendations made.

Keywords:- *Microfinance Institutions, Ghanaian Economy, Economic Growth, Gross Domestic Product.*

I. INTRODUCTION

For over a decade, the microfinance sub-sector has been introduced, evolved and keeps increasing from a niche field of small enterprise credit or micro-credit enterprise to a very comprehensive microfinance concept which comprises different kinds of financial services and products for the active poor people, micro-insurance, micro-savings and deposits, money transfer and microcredit to help build an enormous financial inclusion in the financial system (Ussif. R, 2018). The Ghana Microfinance Institutions Network (GHAMFIN, 2013) is one of the key microfinance institution stakeholders and they are helping in diverse ways towards helping the institution and the Ghanaian economy. Though the history of microfinance institutions started long ago in some countries and could also be segmented into various stages, the revolutionary progress started and was initiated by Dr. Muhammed Yunus in 1976. He is an economics professor and he successfully founded the Bank of Grameen in Bangladesh as a microfinance institution. He started by issuing a loan of 28 US Dollars to a group of petty traders, craftspeople, etc. who are mostly women, in a village very close to the University of Chittagong as working capital. Researches showed that the women paid back the loans issued to them in groups by the Grameen Bank in full and on time. These were done in a system that was simple and payments very frequent with small paperwork to support payments of the institution (Yunus, M. 2008). It was found out by micro 7 programs that, women are the most likely to pay back loans/credits and are reliable borrowers in general. Again, it was observed that the women use their earnings from the loans on education, housing, good food, shelter, and clothing for their families. These in a way leads to lots of benefits to the families, communities, and helping to alleviate the cycle of chronic poverty through the employment opportunity created and the dependency rate. According to Ussif and Ertugrul. (2020), in their study on the role of MFIs in poverty reduction, creation of employment & income-generating activities in the country reveal a favorable relationship between MFIs, employment creations, and poverty reduction since the majority of the customers/beneficiaries confirmed to a high level of improvement in their businesses from the loans they receive and also an improvement in the living conditions and standards since they became part and parcel of the microfinance institutions program. However, Vukson, W. B. Z. (2003), a study conducted recently by world bank indicates that, the villages that Muhammed Yunus served with credit and other services through the Grameen Bank has a higher wage level and that the education, living standards, health and high esteem of the clients who are loan beneficiaries, their household and family has improved. Many financial institutions and non-governmental organizations have followed the Grameen procedures, steps, and following their techniques and strategies to widely different environments. The successful advances and achievements of Grameen Bank lead to an improvement in poverty in some developing countries and Dr. Muhammed Yunus and his Grameen Bank was awarded a noble prize for their good work and efforts in creating social & economic development from products & services in 2006. The microfinance concept formally started in Bangladesh in 1976 by the pioneering work of Dr. Muhammed Yunus. It was observed by some researchers that, the microfinance sub-sector began and gained global recognition in the 1980s example in Bangladesh and Bolivia (Khandker, 2001). Jaffari et' al (2011). However, in Ghana, available researches and shreds of evidence suggested that, in Africa, the first credit union was established in Ghana Northern-Region through the work of the catholic Canadian missionaries in 1955 who originated and settled in the North. But formally, a microfinance institution in the country started in the 1980s. Following the Ghanaian regulatory frame and government policies on micro-financing in the country. Financial regulations, policies, and laws governing microfinance institutions in Ghana have contributed enormously to the microfinance sub-sector development via staff training, building capacity, checks & balances, customers & depositors' protection, contributing to financial soundness, viability, sustainability, and financial inclusion (Ussif and Ertugrul, 2020). The regulatory framework gives the guidelines for microfinance institutions operations, license registration, the amount involved, and reporting procedures to Bank of Ghana (BoG, 2013). While the policies offer all the necessary procedures and guides for the establishment and the running of the microfinance institution in the country. Microfinance institutions significant role in Ghana cannot be overemphasized, Ussif, and Ertugrul, (2020), they are the major financial institutions that support small & medium enterprises with credit. The SME's role in the Ghanaian economic development is also overwhelming via the development of skills and knowledge employment creation, supporting large companies with resources, and women empowerment. The institutions have a positive effect on Small and medium enterprises' growth & development through offering them with loans, organizing training programs and building their skills and capacity, advice on the credit utilization, management of risk, and how to they can build a deposits/savings, and investment culture. Microfinance institutions play a vital role in the Ghanaian economy.

II. ECONOMIC BACKGROUND OF GHANA

Ghana is a country located in Africa western part. That is on West Africa's Gulf of Guinea with a small degree northern part to the equator. Ghanaian population in 2017 was 28,833,629 million, Ghana Population and Housing Census Report (PHC, 2017). Currently, in 2019, the population is 30,096,970. The population of the country is estimated at 30.40 million which is the 46th number in the world ranking. The economy of Ghana is considered a favorable and viable environment for both small, medium and bigger businesses operation owing to its richness in natural resources like cocoa, gold, timber, minerals, bauxite, etc. Ghana has focused on reducing poverty in the country among citizenry through its poverty reduction strategies (GPRS) which is the core of its development strategy with the introduction of the vision 2020, an institutional arrangement that helps to promote, analyze and discuss poverty alleviation across all the 10 Regions of the country where this study was conducted.

A. Economic Indicators in Ghana

Economic indicators in Ghana's economy comprise, the Gross Domestic products (GDP), growth rate, per capita income, inflation rate, interest rate, income levels, level of employment, rate of unemployment, poverty rate, the rate of labor force participation, income level, and the rate of exchange. The Economic sector comprising Agricultural, industry, and service. The agricultural sector is made up of the farming sector, fishing sector, and the forestry sector while the industry sector comprises: manufacturing sector, energy production sector, mining sector, and the sector involved in construction. The service sector includes financial services, the activities of the government, transportation and communication services, and some other economic activities especially those not producing any material goods.

The GDP figure in Ghana was 65,557 million US dollars as of 2018. Ghana is number 74 in the world's ranking of GDP out of 196 countries that were published. The absolute value of GDP per capita of Ghana rose to 6,579 million US dollars concerning the year 2017. The GDP per capita of Ghana as of 2018 was $2,202, $177 higher than in 2017 which was $2,025. The GDP growth rate is 8.5 % annual change (2017) stated by the government. The economic sector thus the industry was recorded with the highest growth rate of 16.7%, and Agricultural is next with 8.4% while the service sector with 4.3%. The services sector remains the largest sector (2017). The economy of Ghana grew 7.4 % yearly in the third quarter of 2018, following an expansion of 5.4% in the previous period. That was the growth rate which was strongest in the third quarter of the year 2017 and was driven mostly by the service sector, and the industry sectors of Ghana (June 20, 2019).

The annual inflation rate rose to 9.2% in February 2019 from 9.0% in January of the same year. The prices rise faster for both foods and non-foods products in the country. The rate of interest in Ghana is expected to be 15.0% by the year ending that is the end of the quarter, said by the trading economics and global macroeconomic models, and the analyst expectations. In 12 months, the interest rate is also estimated to be 14.75% in the country. The total labor force in the country is 12,386.06 in 2018 (World Bank Data). A total of 33.86% of the employees in the country were very active in the agricultural sector in 2018, while 18.62 % were in the Industry sector, and finally, 47.52% were in the services sector (June 25, 2019). The highest percentage in the services sector shows an improvement in the living standard of Ghanaian as compared to the previous years when the Agricultural sector was leading with more labor force because that indicates a level of poverty since the Agricultural sector is mostly comprised of peasant farmers with lower income levels.

The current rate of the above economic indicators in the country include the Gross domestic products (GDP) rate 6.7%, growth rate 2.15% annually, inflation rate 9.4% (July 2019), interest rate 16% (September 2019), income levels, employment rate, unemployment rate 3.7% (June 2019), poverty rate, per capita income, and the labor force participation rate.

B. The Ghanaian Legal Environment

The legislation, regulations, and supervisions of the microfinance sub-sector in Ghana have a tiered regulatory guideline or framework and a mixed approach to the supervision of the sector. The monitoring and supervision are done based on the type and size of the institution whether deposit-taking or non-deposit taking institutions. The rationale for the regulations, policymaking, and supervision of the MFIs are to protect consumers/depositors. The microfinance sector is regulated under the Banking Act, under central bank supervision. Ghana has not come up with a special MFIs law but rather adjusts its banking act to accommodate a special type of MFI. In Ghana, the legislation and regulations that are governing the financial institutions mainly operated under the BoG supervision.

The policies within the sector have enabled MFIs in Ghana to develop and function with little or no interference from the Government due to financial sector liberalization in the country, Thierry et al (2005, pp6). The minimum capital requirement, liquidity capital, and the required reserve of these institutions has been increased to over 200 percent recently to deal away with the insolvent microfinance sub-sector in the country. The interest stakeholders especially the government and the major donors' partners/organizations have been developing the sub-sector through intensive hardworking because this microeconomic sector was seen as the root and basis to the economic growth of the nation and rural development. Therefore, it has taken a procedure and process very participatory, and a position in the restructuring of the sector.

C. The Banking Sector of Ghana

The Ghana Financial Sector according to Steel et al (2003, pp3-9), consisted of 17 banks as at the end of 2002 comprising only (3) three development banks, (5) five merchant banks, and (9) nine commercial banks. While microfinance institution is minimal operating in the remotest part of the country targeting the poor. There is a vast increase in the financial institution's number and the non-banking financial institutions (NBFIs) in the country following the years. Currently, the banks' numbers that are licensed in Ghana as of January 2019 include twenty-three (23) commercial banks based in the country and 4 representative banks based out of the country.

The bank of Ghana on September 11, 2017, through a directive issued, has increased the amount of the minimum capital requirement of financial institutions operating in Ghana which requires that the Banks comply by the end of December 2018. This was done to further strengthen, develop, and promote the financial system to support the government mission and vision and other transformational agendas.

To further strengthen and maintain confidence in the microfinance sector and the financial system at large, the Bank Ghana in January 2016 revoked the license of 70 MFIs and in May 2019, 347 of the institutions again have their licenses revoked in the country due to insolvency and unable to meet the capital requirement set by the BoG. The 347 was made up of 192 insolvent institutions and 155 insolvent and ceased operation institutions. These were done to protect the depositors' and customers' savings and investment and to stabilize the sector by making it sound and viable.

D. Ghana Micro-credit and Macroeconomic Variables

The Ghana micro-credit program started in the early 1950s in the Northern Regional part of Ghana through the work of the missionaries but formally it started to gain recognition after that of Bangladesh by Dr. Muhammed Yunus in 1976. As of 2018, the total microfinance in the country was 484, and the GDP per capita in 2018 was &2,202. Currently, in 2019, the total number of microfinance in the country is One hundred and thirty-seven (137). The number reduce drastically due to the Bank of Ghana revoke licenses of most of the institutions due to insolvency and not able to raise the required minimum capital set by the bank of Ghana regulators.

This year the total number of a microfinance institution that got their licenses revoked by the Bank of Ghana comprises 155 insolvent microfinance institution, these institutions already ceased operations and 192 institutions which are insolvent. Again, the licenses of other 39 microcredit companies which are known as money-lenders have also been revoked this year, thus: Ten (10) of the 39 micro-credit institutions are insolvent and have been ceased operations, while the remaining 29 other are insolvent. So in total 347 microfinance and 39 micro-credit companies' institutions' licenses were revoked by the Bank of Ghana in 2019. This leaves the microfinance industry with just 137 solvent institutions of its previous number 484 companies last year. The BoG promises to further introduce other proportional corporate governance, proper risk management directives, to embark on strict supervision of the remaining licensed institutions and, to enforce relevant regulatory requirements and principles and increase the resources available towards effective supervision of the licensed microfinance sector.

The macroeconomic variables such as poverty, employment and unemployment, labor force participation, income, interest, inflation, and exchange are all indicators that need to be factored into the study to because of the microfinance institution's role in poverty reduction, employment creation, income-generating essay in the work, the interest rate charged by the institution, etc. to measure the impact of each variable on the study or microfinance sub-sector.

III. EVOLUTION OF MICROFINANCE IN GHANA

Microfinance in Ghana is an old concept. The Ghanaian people started their savings since time immemorial by taken smaller credit/loans from people individually or in groups in a form of helping businesses, petty trading, seamstresses, farming, and other ventures within the country. The Catholic Missionaries from Canada in 1955 came and settled in the northern part of Ghana established the first Credit Union there and that was the first Credit Union to be established in Africa according to available evidence. In the 1990s there was widespread of susu one of the methods of micro-financing currently originated from Nigeria to Ghana (BoG, 2007), Microfinance in Ghana passes through four different stages like other microfinance in the world. The following are the four stages:

- *Stage one:*

In the 1950s, the government provides subsidized credit. Starting from the 1950s, the government of Ghana provides clients with credit at a subsidized price, when lack of money was assumed a serious problem and a reason why most people are poor in Ghana. So to eliminate poverty in Ghana, subsidized credit was provided by the government to interested customers and individuals.

- *Stage two:*

During the 1960s and 1970s, microcredit provision through Non-Governmental Organization (NGOs). Microcredit was provided to the poor through Non-Governmental Organizations in the 60s and 70s. This was done to encourage self-sufficiency and sustainability of microfinance institutions because, during those periods, financial self-sufficiency and financial sustainability were not in any way seen to be very important.

- *Stage three:*

Microfinance institutions' formalization began in the 1990s. These formalizations of microfinance institutions lead to introducing more institutions in the country.

- *Stage four:*

The commercialization of microfinance institutions began in the mid-1990s. These made the institutions to gain attention with the mainstream institutions moving into the financial system.

IV. THE NEED FOR MICROFINANCE INSTITUTIONS IN GHANA

The main goal of Ghana's Growth and Poverty Reduction Strategy (GPRS II) is to ensure "sustainable equitable growth, accelerated poverty reduction and the protection of the vulnerable and excluded within a decentralized, democratic environment". The intention is to eliminate widespread poverty and growing income inequality, especially among the productive poor who constitute the majority of the working population. According to the (2000) Population and Housing Census, 80% of the working population is found in the private informal sector. This group is characterized by a lack of access to credit, which constrains the development and growth of that sector of the economy. The observation was stressed in the International Monetary Fund Country report on Ghana of May (2003) that "weaknesses in the financial sector that restrict financing opportunities for productive private investment are a particular impediment to business expansion in Ghana." Microfinance perceived as a financially sustainable instrument meant to reach a significant number of poor people of which most are not able to access financial services because of the lack of strong retailing financial intermediaries. Access to financial services is imperative for the development of the informal sector and also helps to mop up excess liquidity through savings that can be made available as investment capital for national development World Bank- Africa Region, (1999). Microfinance as a sector has the potential to reduce poverty by bringing a significant improvement in the lives of the active poor who are largely women.

- *The Types of Microfinance Institutions in Ghana*

Microfinance in Ghana is categorized into four different types/groups of institutions in Ghana (GSS, 2015) namely: the formal suppliers, semi-formal suppliers, informal suppliers, and the public sector programs. The Ghana Microfinance institution main types are based on their legal status:

A. Formal Financial Institutions

Formal financial institutions are incorporated under the Companies Code 1963 and licensed by the Bank of Ghana (BOG) under either the Banking Act of 2004 as amended by Act 738 of 2007 or the Financial Institutions (Non-Banking) Law 1993 (under review) to provide financial services which include the provision of credit and savings mobilization from the public. These formal financial institutions or formal suppliers include rural and community banks, savings and loan institutions, some development, and commercial banks.

- *Rural and Community Banks (RCBs)*

These banks operate as commercial banks under the Banking Act, except that they cannot undertake any foreign business, and their minimum capital requirement is significantly lower. RCBs operate as unit banks owned by both resident and non-resident members of the rural community through the purchase of shares and are licensed by the Bank of Ghana. They were introduced in 1976 to deepen the provision of financial services. As of 2009, there were 129 RCBs with about 560 outlets, spread across all the 10 regions of the country. The three northern regions which constitute about half of the landmass of the country had only about 9% of them. RCBs finance their activities mainly through deposits from clients, borrowings, equity, and concessionary loans from microfinance programs of the government and the development partners.

➢ *The Savings and Loans companies (S&Ls)*

These companies are owned by private individuals or entities who hold shares in the companies. These are licensed as non-bank financial institutions, their capital requirement is much lower than that of the commercial banks, but well above that for the rural and community banks. There are 18 S&Ls, mostly located in urban areas with a limited physical presence in rural areas. None of them operates in any of the three northern regions.

B. Semi-Formal Financial Institutions

Semi-formal financial institution / Semi-formal suppliers include Credit Unions (CUs), Cooperatives, and Financial Non-Governmental Organizations (FNGOs). Both the Financial Non-Governmental Organizations (FNGOs) and Credit Unions (CUs) are legally registered but not licensed by the Bank of Ghana.

➢ *Financial Non-Governmental Organizations (FNGOs)*

The Financial NGOs are incorporated as companies limited by guarantee (not for profit) under the Companies Code. They are multipurpose NGOs providing microcredit and some non-financial services. They are excluded from mobilizing savings from the public and hence have to use external funds for their microcredit operations. These funds are from donors, development partners, social investors, and government programs. The largest FNGO has been borrowing from the market with a guarantee from its international social investor. There are about 42 FNGOs, of which about 20 are active. FNGOs in Ghana are small in size, most of them having less than 1000 clients. They operate in the rural and peri-urban areas where the banks cannot reach. A few of them have urban operations.

➢ *Credit Unions*

Credit unions are registered by the Department of Cooperatives as cooperative thrift societies that do mobilize savings deposits from and give loans to their members only. Even though it has been provided under the Non-Bank Financial Institutions law to be regulated by the Bank of Ghana, a framework for their regulation is being developed. They are however being self-regulated by their association. The credit unions exist at workplaces, parishes, and communities, there are both rural and urban unions. There are about 400 Credit Unions.

C. Informal Financial System

The Informal Financial System / Informal Suppliers include: Susu collectors and clubs, Rotating and accumulating Savings and Credit Associations (ROSCAs), traders, moneylenders, and other individuals. The informal financial system covers a range of activities, including Susu (which includes itinerant savings collectors, rotating savings and credit associations, savings and credit "clubs" run by an operator company, and scheme operated by banks), Community Based Organizations and Self Help Groups. The individual itinerant susu Collectors have long provided an important form of savings in the West African sub-region. They collect daily amounts set by each of their clients (usually traders and artisans) and return the accumulated amount at the end of the month, minus one day's amount as a commission. Of late some susu companies have been set up with employees doing the collection. It is estimated that there are over 3,000 Susu Collectors nationwide of which 1200 are registered with the Ghana Cooperative Susu Collectors Association (GCSCA), the apex body.

➢ *Public Sector Programmes*

These are those sectors that have developed financial and non-financial services for their clients.

V. APEX BODIES OF MICROFINANCE INSTITUTIONS IN GHANA

The microfinance Apex bodies are the institutions within the country that help regulate, supervise, and monitor the activities of the microfinance institutions in Ghana. These Apex bodies have been formed for five categories of MFIs. The RCBs have two apex bodies. These are the original apex association of Board directors, Association of Rural Banks (ARB) which currently engages in advocacy, and the operational apex body, ARB Apex Bank Ltd, owned by the RCBs and licensed as a bank by the Bank of Ghana (established in 2001) with additional responsibilities to promote, develop and oversee the rural banking operations.

The Ghana Cooperative Credit Unions Association (CUA) was formed as the apex association for the CUs in 1968. The CUA provides training, product development, financing facility, insurance, auditing services, and performance monitoring to its members in addition to advocacy. As the apex body for the Susu Collectors, the Ghana Cooperative Susu Collectors Association (GCSCA) provides advocacy, training, and some self-regulatory measures to its members. It also promotes the credit union concept of being cooperative thrift societies managing their resources.

The Association of Financial NGOs (ASSFIN) was formed to advocate and enhance the operations of the NGOs providing credit. The last apex association to be formed is the Ghana Association of Savings and Loans Companies (GHASALC), which was formed in 2008 to bring the S&Ls together for advocacy and promote the development of the S&Ls.

VI. FEATURES OF MICROFINANCE INSTITUTIONS

The main features which differentiate microfinance and other financial and non-financial institutions are listed below. Nine (9) minimum traditional characteristics of microfinance institutions existed. These include:

- ➢ Minimum balances and smaller transactions (savings, insurance, or in loans).
- ➢ Entrepreneurship activities loan
- ➢ No issue of collateral securities on credit
- ➢ Groups lending and not individually
- ➢ Poor clients/Customers are the target group
- ➢ Targeting of female clients than males

- Processes of Applications are very simple
- The financial services are provided in low served areas or communities and
- Interest rates are market-level.
  Source: Marc & Armendariz (2011).

The microfinance unique features can never be forgotten since it is very important to know the differences between them and traditional finance. After knowing the difference that one can examine how both prudential and non-prudential norms and regulatory framework in the financial sector affect MFIs. The features include; borrowers are poor people from low-income groups and communities, loans are in smaller amounts – microloans, the loans are of a shorter period and collateral is not mostly needed for the loans to be offered, there is the frequency of repayment and the loans are generally offered for activities that generate income.

A. Difference between Microfinance and Traditional Finance

There are many differences between Microfinance and traditional finance. In studying microfinance, it is crucial to understand what the main differences between these two are. These differences can be discussed in three main areas. Methods of lending, credit giving, and institutional structures and governance. (Rock & Otere, 1996; Berenbach & Churchill, 1997). These differences are explained below:

- *Methods of Lending*

The methods of lending in micro-financing are simple and straight forward as compared to traditional finance. In traditional finance, lending/ credit offering is based on collateral securities issuing, more and detailed documentation, and very less labor-intensive. While, microfinance is character-based, less documentation, and less labor-intensive.

- *Credit/Loan*

The type of credit and the size varies for traditional finance and microfinance. The credit traditional finance offers include: very few loans are issued, the loans/credit are larger in quantity, it is collateral-based, the loan has longer maturity periods, and they are more stable and highly delinquent. While microfinance offers more loans to their customers, the loans are smaller in size, uncollateralized, the maturity period is shorter and they are more unstable and volatile delinquency.

- *Institutional Structures and Governance*

The Institutional Structures and Governance differ from traditional finance to microfinance. With traditional finance, profit maximization is high, it includes institutional, and individual shareholding, highly regulated institution with a centralized organization that has more branch offices located in the cities while microfinance is mainly nonprofit maximization institutional shareholders, creativity by conversion from NGOs and a non-centralized organization with a set of a small unit in rural communities/areas with a non-strong infrastructure.

VII. FINANCIAL REGULATIONS

According to Vittas, (1992) financial regulations are mainly described to include six different kinds of regulations that are employed to achieve diversifying purposes. The categories of the financial regulations are Macroeconomic control, Allocation control, structural control, prudential control, organizational control, and protective controls. These regulations are explained below:

A. Macroeconomic Control

The macroeconomic regulation or control as to do with considering the overall economy of a country and maintaining controls of the activity involved. Thus, check the reserve and liquidity requirements of the institutions, controls of interest rate, and restrictions on foreign investments. That is the direct use of government intervention by the central government or central bank of a particular country. An example is the Bank of Ghana in a Ghanaian situation.

B. Allocative Control

Allocative control helps in the allocation of resources in a particular economy. Investment requirements are compulsory and credit programs are also selected and preferential interest rates are taken into consideration.

C. Structural Control

Structural control means the entire financial system structures are taken into consideration. There is proper control of all the sectors and functional heads. The control of a structure in a financial institution means controlling the entry and merger, geographical restrictions, and limitation on a range of activities/programs of different kinds of financial institutions.

D. Prudential Controls

Prudential controls are types of controls in a financial system which is done to ensure the safety, viability, and proper functioning of the institutions. The soundness and stability of the financial institution are preserved through prudential control. The entire financial system is preserved through prudential control and it is done through minimum capital of the institutions, the adequacy standards, and the limits on the concentration of risk, as well as reporting standards & requirements, and the provisioning requirements of the institution.

E. Organizational Control

Organizational control is to ensure that the entire organizational system is in order. It involves the institutions (financial market, financial institution financial intermediaries) and also the information exchanges are effectively maintained. The policies, rules, and regulations of the institution and the market-making of the participation, disclosure, communication & market information, and the minimum technical standards.

F. Protective Controls

Protective controls serve as a protective measure to safeguard and protect the customers of the microfinance institutions and their small deposits and savings. It also protects the users of all financial and non-financial services in the country. Thus the customers, loan beneficiaries, providing information on them, and disclosure to the consumers. They are again protected from the interest rate charge and compensation funds. It also protects the employees and management of the microfinance sub-sector from unfair treatment and poor regulations in the country.

VIII. ECONOMIC RATIONALE FOR FINANCIAL REGULATIONS

The economic rationale focuses on seven different components for regulations and supervision in banking and financial services. Below is the economic rationale:

A. Preserving Financial Sector Soundness

Microfinance like any other financial sector needs to be preserved. The soundness, stability, functioning, and activities of the financial system must be preserved. The main goal of every regulation is to protect and preserve the soundness, viability, and stability of the financial institutions and systems, clients' deposit/savings as well as the entire public (Llewellyn, 1999). Regulations and supervisions are done to protect the consumers and the public deposits in all financial institutions both formal and informal institutions. The presents of regulation in a country bring about the public and clients being free and not scared to save with a financial institution. Unlike when there is no regulation, supervision nor monitoring. A weak financial system, poor regulation, and supervision and that lack transparency are tantamount to a financial crisis as well as global financial crises. That is the reason why the safety and soundness of all financial institutions must be at the forefront of every functioning financial institution whether formal or informal.

B. Ensuring Institutional Soundness

Institutional soundness is a very crucial element in regulations. Regulations are done to ensure that the financial institution is sound, stable, and sustainable. A sound stable and sustainable financial institution leads the economy to greater heights. It also brings about a high standard of living and economic development. The growth and sustainability of microfinance institutions are possible only when the set standards of the regulatory framework are followed. Banana skins report (2009, page 28), state clearly that, most countries still lack microfinance regulations, that MFIs are not regulated, most of the institutions are forced to follow other rigid ways, like commercial banking regulation which most respondents and customers cited as their problems. Incorrect and fake regulations always affect the viability and survival of the business environment, discourage investors, deposits, clients, donors, and expose MFIs to panic and political interference.

C. Sharing of Information

Every sound financial system needs good information flow. The sharing of information and effective communication is a key element in every financial institution and microfinance institution is not an exception. The flow of information helps reduce the problem of information asymmetric, an adverse selection that leads to moral hazard.

Arun (2005), states that asymmetric information presence tells how a financial institution operates with its heavier regulations when compared with different systems. The way some stakeholders like; shareholders, donors, depositors, debtors, creditors share information among themselves brings the attention and interest for the institutions to check their interest through effective regulations, monitoring, and supervision to protect customers/clients interest and the small depositors' interest (Vogel et al. 2000; Jansson, 1997).

D. Responsible Lending and Service Provision

Regulations serve as a protector to all consumers, investors, and the entire public. The kind of services that the poor people received from microfinance institutions, consumers, and the public at large are been regulated by the regulators. The bad activities are been prohibited and allow only the beneficial ones. Lending institutions are also monitored by the regulators and to ensure that the right interest rates are charged and help to create an enabling environment for responsible lending. With regulations, the legal status of financial institutions and standards are created.

E. National Loan Register (NLR)

A national loan register is a tool that helps in the assessment of borrower's ability and capability to repay a credit that is been offered to them by the financial services providers. It was formed by the microfinance regulatory council (MFRC) and it contains accounts and information about repayment of the credit that was given to the clients by the micro-lenders who registered with the national loan registry. The development of the national loan register was during the period that the micro-lending of the sector was intended by the microfinance regulatory council as a public registry. There is much data/information that is included in it. Some of them include; information on credit/ loan, total payments, total grants, and inquiries. Information like judgments is not included.

F. Consumer Protection

The protection of consumers is a significant aspect of every financial institution. Consumers if not protected will be taken for granted. The right and interests of consumers must also be protected. A consumer is always right in every business set up and must be given the right to choose between the financial services available to them. The microfinance sector and the services they provided help transform the lives of the poor households and the public and because of that, it must be protected well. McKee et al (2010) in their study indicated that the significance of customer protection in an institution like microfinance has been identified and noticed that, the financial services help the poor individuals to transform their lives. When financial regulation not designed and implemented properly, to some extent can cause more harm than good especially microcredit. To help curb the problems, there is a campaign on MFIs which helps brings a variety of players in microfinance like the government, investors, managers, donor, practitioners, policymakers, networks, clients. These were working to bring a standard for the better treatment of the poor consumer/customer which is based on 6 different principles of customers' protection which include: Ethical staff behavior, Privacy of client data, Transparent pricing, Mechanism for the readiness of grievances, Avoidance of over-indebtedness, and Appropriate collection principle. It was launched in March 2009) with the main objective of making sure that, the customers of microfinance institutions are treated fairly and been offered products and services that are not harmful and expose those clients to unnecessary risks by the financial services providers (McKee, 2010).

G. Control of Interest Rates

Poor households are always faced with a challenge of high-interest rates in the credit been issued to them and other financial services by the microfinance institutions. Regulations of microfinance institutions are intended to protect the high-interest rate and pricing of microfinance institutions. Prevent services to the poor household which causes more harm to them and discourages them from banking and demand for credit. This brought the idea of the interest rate ceiling in financial institutions. Financial institutions that provide financial services to low-income people, who are living in low-income communities, exploit them because they want to cover the cost of their operation in a study of "the interest rate ceiling in banks. Commercial banks not to expand to microcredit market", (Goodwin-groen 2006, page 26).

➢ *Financial Regulations in Ghana*

Microfinance is rapidly moving from a niche product to a globally recognized form of finance. There is the need to regulate both banks led and non-bank led mobile financial service providers. A regulatory and operational guideline for microfinance institutions was brought by BoG with some guidelines and principles thus both operational and regulatory guidelines for the institution (BoG, 2011). The guidelines which are prudential and non-prudential do not seem fully address soundness of the microfinance institution subsector in Ghana. Regulation of financial markets is crucial and customer protection is one of the important factors in the microfinance sector. Regulations required effective and coherent prudential guidelines that allow the development of the sector and at the same time, protecting depositors and small savers' interest while supporting the financial system's integrity as a whole.

➢ *Types of Financial Regulations*

Financial institutions generally have two types of regulations that regulate their activities in both developed, developing, and underdeveloped countries. Llewellyn (1999) argues that microfinance has several ways in which it can gain financial regulation. Ghana for that matter is not an exception and the two types of regulations are; Prudential regulation and the non-prudential regulation. While prudential regulation deals with the soundness and smoothness of the sub-sector, thus, the kind of regulation provides help to minimize the risk of the institution and make financial services stable and sustainable through an appropriate legal framework for financial operations. The Non-Prudential regulation deals with the regulations on the institution's business operation.

- *Prudential Regulation*

This is a financial regulation that requires financial institutions, companies, firms to be able to manage and control their risk level, have enough capital as defined by the regulations known as capital requirement. Under prudential regulation, the deposit-taking institutions are being supervised, monitored, and fully registered. Christen, Lyman, and Rosenberg (2003) argue that prudential regulation is protecting the savings of the poor, their safety and this brings the reason for improved regulations and supervision of microfinance institutions. There is a set down procedures, requirements, guidelines, and rules that investigate the conduct of the institutions to limit their risk-taking. The goal of this regulation is to maintain the viability and stability of the financial institution, and to protect the customers, ensuring the safety and well-being of depositors' funds. It is a legal framework for all financial service providers or regulators and it helps in minimizing financial sector challenges and risks. Prudential regulation protects the soundness, financial system stability, and financial health as a whole through the establishment of the legal and regulatory guidelines and other benefits of the institutions conduct themselves not taking a risk which will bring the company to a standstill nor affect their performance. Arun, (2005.) Indicate that, the goal of the prudential regulation is the regulation of the financial institution, financial markets, and the entire financial system through making it stable and sound, and also protecting the poor depositors. So its oversight must be the duties and responsibilities of the public and specialized supervisory body (Llewellyn 1999).

- *Non-Prudential Regulations*

To protect the clients of the microfinance institution, non-prudential microfinance regulation is very crucial. Non-prudential regulation is a regulatory standard consisting of different interrelated parts as to how the microfinance company should be conducted. The popular amongst them include; interest rate disclosure and transparency, customer protection, credit bureau implementation, financial crimes, and fraud prevention (Christen et al, 2003). According to Christen and Roseburg, (2000) the above standards mentioned are also important and not mean irrelevant though they are qualified as non-prudential regulations. This type of regulation is related to the regulations that are dealing with consumer protection, disclosure of information, effective communication, transparency, practices of businesses that are fair to consumers, and which are the same and been applied to other industries. This type of regulation is argued as a regulation kind that can be controlled by any other authority and can be self-imposed by any other authority.

IX. METHODOLOGY

This article was based on the reviewed literature from the websites, home page, and publications of Bank of Ghana, Ministry of Finance, Ghana microfinance institutions Network, Ghana Microfinance Company, published and unpublished Journal, dissertations, microfinance Books and the internet sources.

The Bank of Ghana is the central bank of Ghana in charge of all banks and the sole institution regulating microfinance institutions in the country. Data related to microfinance institutions are available in the institution websites and homepage. Some of the relevant data are not open to the public unless with special negotiations or arrangements.

The Ministry of Finance, Financial Sector Division is in charge of microfinance policy making and implementation in the country, and they also have data about microfinance institutions' performances, regulations, and policies. Some of the data is found on their web sites.

The Ghana statistical Service is, of course, another important data source for microfinance institutions in the country. There is monthly press release available at their website and they conduct a series of surveys on Financial Services survey, Ghana Living Standard Survey, and the like. In the press releases of GSS, numerical data, and statistical information about enterprises and again on microfinance institutions, financial services data can be found. The micro-data is open to the general public.

The Ghana Banking Regulation & Supervisory Agency also has other relevant data on microfinance institutions regulation in the country. Related data on financial information, detailed data on microfinance institutions loans was obtained from the web sites.

Ghana Microfinance Institutions Network (GHAMFIN) and Ghana Microfinance Company (GAMC) also have relevant data on microfinance institutions in the country.

Despite the above, the below are some recognized international institutions where data related to Ghana microfinance institutions and Ghanaian economy are available. These are:

- European Central Bank (ECB)
- IMF- International Monetary Fund
- World Bank
- UNDP- United Nations Development Programme
- UNCDF- United Nations Capital Development Fund
- IFC Financing to Microfinance Institutions
- IFC Enterprise Finance Gap Database
- OECD- Organization for Economic Co-operation and Development
- Microfinance Institutions Country Indicators
- Microfinance Institutions Forum
- Microfinance Institutions Performance Review

X. CONCLUSION

This article reviews the related literature to the microfinance institutions and the Ghanaian economy. It discusses the evolutions and stages of microfinance institutions in the country, economic indicators, and microfinance institutions with regards to the indicators, regulations, poverty reduction, employment creation, income generation, economic growth, and development. Furthermore, the information about the data sources was also indicated. Again, it was observed that, comparatively, articles related to overview of microfinance, microfinance institutions and poverty reduction, employment creation, and income-generating activities majority are informative, they are based on survey analysis conducted and the areas of the survey are only restricted to particular microfinance institutions or certain regions within the country. Research on overview of microfinance institutions and the Ghanaian economy are scarce in the country. Again, few of the articles use financial econometrics due to the reason that accessing data from most of the institutions is difficult.

RECOMMENDATION

Macroeconomic variables and economic indicators like GDP, Employment, Poverty, Income level, Unemployment, Inflation rate, Interest rate, and labor participation have a direct relationship with a microfinance institution in the country so the government should help stabilize the variable and make them sound for the sector. We recommend that the financial inclusion policy should be designed by the policymakers to assess the performance and needs of microfinance institutions, their customers, and the regulators and to guide them towards achieving their objectives, mission, and vision. There should be proper dissemination of information within stakeholders to promote research and evaluation of the entire sector. The GHAMFIN and GAMC should work in collaboration with key stakeholders of the institutions and continue supporting and helping microfinance institutions in terms of credit risk default, advice, and training, to reduce the collapse rate, and enhance sustainability for the betterment of all the institutions in the sub-sector. The Apex bodies of the institution should collaborate, coordinate and support each other with funds, resources, ideas, inputs, and information for all the institutions to be profitable, successful, and sustainable to reduce the collapse rate of the sector and make the economy sound and strong.

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