

**GHANA FINANCIAL SECTOR DEVELOPMENT PROJECT (GFSDP)**

**TERMS OF REFERENCE**

**FOR THE  
CONSULTING SERVICE TO STRENGTHEN THE SPECIALISED DEPOSIT-TAKING  
INSTITUTIONS (SDIS) SUB-SECTOR AFTER THE COMPLETION OF THE  
RESOLUTION OF WEAK AND DORMANT INSTITUTIONS  
(FIRM SELECTION)**

**Loan No./Credit No./Grant No.: IDA Credit No. P161787**

**Contract Reference No: GH-MOF-FSD-CS-01**

**BENEFICIARY INSTITUTION**

**BANK OF GHANA**

**MINISTRY OF FINANCE**

**GHANA FINANCIAL SECTOR DEVELOPMENT PROJECT**

**TERMS OF REFERENCE FOR CONSULTING SERVICE TO REVIEW THE  
INSTITUTIONAL AND REGULATORY GAPS THE SPECIALISED DEPOSIT-  
TAKING INSTITUTIONS (SDIS).**

**Loan No./Credit No./Grant No.: IDA Credit No. P161787**

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**1.0 BACKGROUND**

The Ministry of Finance has received financing from the World Bank towards the implementation of the Ghana Financial Sector Development Project. The BOG as a beneficiary of the project, intends to apply part of the proceeds for consulting services. The project objective is to promote financial sector soundness and access to financial services by individuals.

Bank of Ghana is mandated by section 3(1) of the Banks and Specialised Deposit-taking Institutions Act, 2016 (Act 930) to have overall supervisory and regulatory authority in all matters relating to deposit-taking business in Ghana. Similarly, section 3(2)(c) of the Act charges Bank of Ghana to ensure the soundness and stability of the financial system and the protection of depositors in the country through the regulation and supervision of financial institutions.

The Non-Bank Financial Institutions Act, 2008 (Act 774) mandates Bank of Ghana to license and supervise Micro-credit companies. Credit Unions are regulated under the Co-operative Credit Union Regulations, 2015 (L.I. 2225). The Bank of Ghana has regulatory and supervisory responsibility for licensed Banks and Specialised Deposit-Taking Institutions (SDIs), i.e. Microfinance Companies (MFCs), Rural and Community Banks (RCBs), Micro Credit Companies (MCCs), Financial Non-Governmental Organisations (FNGOs), Savings and Loan Companies (S&Ls) and Finance Houses (FHs).

To maintain public trust, confidence and deepen financial inclusion, the Bank, in May 2019, carried out a special exercise to revoke the licences of 347 insolvent and dormant MFIs, 39 MCCs and 23 Savings and Loans Companies and Finance Houses. The Bank determined that some of these institutions breached the solvency test provided in section 123 of Act 930, while others also breached other sections of Act 930 and Act 774.

The Credit Union Association (CUA), is the umbrella body of all Co-operative Credit Unions in Ghana. It provides an enabling environment for financial and other technical services to its members and also ensuring that the credit union concept is promoted as part of the national financial inclusion agenda. CUA is to regulate and supervise all the Credit Unions in the country on behalf of the Bank of Ghana and other interested groups for sanity to prevail in the market to enhance financial stability and soundness in the country.

Services provided by CUA to all credit unions in Ghana include examining premises and equipment for provision of licence to commence business, providing materials for administrative purposes, and auditing accounts of the credit unions to ensure that there is fairness and justice in the administration of funds in the credit unions in Ghana. Similarly, all the credit unions are requested to deposit some percentage of funds into statutory reserves and deposit guarantee schemes so that in times of difficulties, CUA provides all the financial assistance to the credit union in trouble.

The ARB Apex Bank on the other hand acts as mini-central bank to the Rural and Community Banks (RCBs). Some of its functions include monitoring and supervising to ensure compliance, keeping accounts and maintaining primary cash reserves for the RCBs, handling of cheque clearing activities, supplying cash and receiving excess cash, provision of audit, inspection and ICT services, development of credit assessment procedures and monitoring loans and advances.

## **1.1 STRUCTURE OF SDI SECTOR IN GHANA**

Licensed Specialised Deposit-taking Institutions (SDIs) and Non-Deposit Taking Institutions are categorised into four (4) tiers as follows:

**Tier 1** – Savings and Loans and Finance Houses are institutions with a minimum capital requirement of GH¢15.0 million and are supervised by the Banking Supervision Department of Bank of Ghana. However, whereas S&Ls are deposit-taking institutions, FHs are not. RCBs are institutions with a minimum capital requirement of GH¢1.0 million and are supervised by the Other Financial Institutions Supervision Department (OFISD) of Bank of Ghana.

**Tier 2** – Deposit-taking Microfinance Companies (MFCs) with a minimum capital requirement of GH¢2.0 million and are supervised by OFISD.

**Tier 3** – Micro-credit Companies with a minimum capital requirement of GH¢2.0 million and FNGOs with minimum capital requirement of GH¢0.3 million and are also supervised by OFISD.

**Tier 4** – Micro-credit Institutions (Individual and Enterprises) and Susu Collectors who have no minimum capital requirement and are supervised by Micro-credit Association Ghana and Ghana Cooperative Susu Collectors Association (GCSCA) on behalf of Bank of Ghana.

## **1.2 CURRENT CHALLENGES WITH THE REGULATION AND SUPERVISION OF SDIs**

A major challenge with the SDIs is the mission drift from their core business to engaging in big ticket transactions. The SDI concept is promoted as part of the national financial inclusion agenda with particular focus on the poor or low-income earners and the unbanked. Sadly, the focus has been redirected to the already rich and more affluent in society. Instead of giving out microcredit to help establish, sustain and grow microenterprises, operators and managers have diverted their attention to big ticket investments. It is posited that these operators may not have understood the nature of the SDI business, and hence engaged in high risk transactions with depositor's funds.

It has also been observed that operators divert depositors' funds into other unrelated businesses, for example real estate, hotels and small scale mining. These activities tend to lock up depositors' funds as these activities are capital intensive and have long payback periods. These diversions starve especially, the MFCs of funds and thus are unable to meet demands of their customers as and when they fall due.

Weaknesses in supervision, a lack of coordination and poor institutional linkages, the absence of clear policies and guidelines for the operation of SDIs led to the unfortunate proliferation of SDIs. The blatant disregard for ethical standards and the deliberate "experimentation" of the management of SDIs are all the consequences of the absence of effective supervision and regulatory measures.

Also, SDIs lack the human capital and the requisite skills to effectively run these institutions. The conduct of the business involves the daily activities of micro-insurance, collecting daily deposits (susu), mobilization of savings and the withdrawal of same by customers. It also involves the giving out of small loans (micro credit) to entrepreneurs and the operators of micro-enterprises, and the strategic investment of any excess liquidity that is accrued from clients' monies mobilized.

Other challenges include inaccurate and non-submission of prudential returns, paucity of records, poor corporate governance practices, poor risk and credit management practices and unsafe and unsound banking practices contrary to the provisions of Acts 930 and 774.

In order to restore public trust and confidence, and to deepen financial inclusion, Bank of Ghana undertook a resolution exercise aimed at comprehensively cleaning up the sub-sector and strengthening regulatory and supervisory oversight. This resolution exercise resulted in the revocation of licenses of 347 MFCs, 39 MCCs and 23 Savings and Loans Companies and Finance Houses. Creating a healthy financial sector was also central to a successful take-off of the Ghana Deposit Protection Scheme (GDPS) in September 2019, which sets eligibility criteria and minimum requirements for financial institutions to accede to the Scheme.

## **2.0 OBJECTIVE OF THE CONSULTANCY**

The main objective of this assignment is to undertake a diagnostic study of the current challenges, lessons learned, and provide recommendations for the strengthening of the sector after the completion of the resolution of the SDIs in 2019. The Consultant will be expected to come out with recommendations to enhancing the regulatory and supervisory framework for SDIs and Credit Unions, to promote consolidation and reduce regulatory arbitrage.

The Consultant will be required to carry out the following activities:

- i. Review and document relevant international experiences (at least three cases studies) on successful regulation and supervision of SDIs/MFIs and draw lessons for Ghana;
- ii. Review the SDI sector in Ghana, including its structure, envisaged and actual role of each type/tier of SDI, permissible activities, laws and regulations, financial performance, etc;
- iii. Assess the adequacy of the oversight structure in place, including the role of Bank of Ghana and delegated entities (ARB Apex Bank, CUA, etc), division of labor between Bank of Ghana and delegated entities, resources allocated, and technical skills;
- iv. Assess the adequacy of the current regulatory framework for various tiers, including examining licensing requirements, prudential standards on capital, liquidity, corporate governance, related party transactions, etc.
- v. Identify factors that led to the current challenges and lessons learnt;
- vi. Make detailed recommendations to address the identified challenges, covering all relevant aspects such as structure of the sector, regulatory and supervisory framework and capacity, and prudential standards.
- vii. In making the recommendations, identify specific changes/improvements that are required, for instance, specific regulations/guidelines or provisions in regulations/guidelines;
- viii. Propose an action plan for the implementation of the recommendations;
- ix. Deliver a stakeholder workshop to share the findings and recommendations.

### 3.0 METHODOLOGY

The Consultant will work in close cooperation with the OFISD and BSD teams at Bank of Ghana, the GHAMFIN Secretariat, ARB Apex Bank Limited and CUA, in order to get a better understanding of the context of the assignment and the expected outputs/ deliverables. Desk reviews, interviews with relevant stakeholders will also be used, among other research approaches that the consultant may propose.

### 4.0 DELIVERABLES /TIMELINE/PAYMENT

The Consultant will report directly to the Project Director, Head of Financial Sector Division of the Ministry of Finance.

The following outputs are expected:

S/N	Description of output	Timeline	Payment (%)
1	<b>Inception Report</b> outlining the consultant's detailed understanding of the assignment, methodology to be applied, likely outcomes, any preliminary findings, and detailed work plan	<b>Two (2) months</b> after commencement of the assignment	25
2	<b>Draft report</b> with findings and recommendations and detailed actions plan.	Four (4) months after	35

		commencement of the assignment	
3	<b>Workshop</b> with key stakeholders to discuss the draft report	<b>Two (2) weeks</b> after the submission of the draft report	20
4.	<b>Final Report</b> incorporating comments from Bank of Ghana and stakeholders' feedback during the workshop	<b>One (1) month</b> after the workshop	20

## 5.0 DURATION OF THE ASSIGNMENT

The duration of this assignment will be 6 months.

## 6.0 LOCATION OF THE ASSIGNMENT

The assignment will be undertaken in Accra, with visits to SDIs outside Accra. (eg. Kumasi). Travel outside duty station shall be authorized by MoF and travel expenses will be reimbursed.

## 7.0 FACILITIES TO BE PROVIDED BY CLIENT

Bank of Ghana will provide administrative support, office space and all relevant documents to the Consultant.

## 8.0 REQUIRED QUALIFICATIONS AND EXPERTISE

The assignment will be delivered by a firm with the following qualifications:

- Minimum of 10 years of experience in the provision of consulting services in financial sector reforms and policy formulation and regulatory frameworks, particularly in similar country context;
- Track record in the completion of similar assignments in at least two countries;
- Demonstrated balance of international and local experience and expertise.

The Team should include the following key experts:

### Financial Sector Policy Expert and Team Leader

- i. Degree in Economics/Accounting/Banking/Finance or relevant professional qualification;
- ii. Minimum of 15 years relevant experience in the formulation of financial sector policies, such as the design of regulatory and supervisory frameworks, assessment of financial sector soundness and stability, financial sector restructuring, and access to finance;
- iii. Working knowledge of the banking sector, especially of the SDI sector in Ghana or similar experience elsewhere around the world;
- iv. Familiarity with SDI regulation and supervision in Ghana or elsewhere, as well as with associated supervisory architecture;
- v. Good understanding of the risk associated with MFI operations;
- vi. Experience in training/capacity building and good presentation skills;

vii. Excellent English communication skills (both oral and written).

**Regulation and Supervision Expert**

- i. Degree in Economics/Accounting/Banking/Finance or relevant professional qualification;
- ii. Minimum of 10 years of relevant experience in regulating and supervising financial institutions, especially SDIs in Ghana or in similar countries around the world;
- iii. Hands on experience in the development of prudential standards for SDIs;
- iv. Experience in off and onsite supervision of SDIs;
- v. Experience in training/capacity building and presentation skills.
- vi. Excellent English communication skills (both oral and written)