



BANK OF GHANA

FAQs

REVOCATION OF LICENCES OF INSOLVENT MICRO FINANCE INSTITUTIONS

1. Why is the Bank of Ghana undertaking this particular action?

Answer: Over the years, the Bank of Ghana notified these institutions of regulatory violations, deficiencies, and vulnerabilities which had been identified through off-site reviews and onsite examinations. Unfortunately, efforts by the Bank of Ghana to get the affected institutions and their shareholders and directors to rectify these deficiencies yielded no results. Consequently, the financial position of these institutions continued to deteriorate, leading to their insolvency with majority of them ceasing operations and closing their offices with depositors' funds locked up. Even those that have not closed their offices are unable to pay their depositors. This has placed a substantial amount of depositors' funds at risk. Given the risks that these institutions continue to pose to the entire financial system, and the need to protect depositors, the Bank of Ghana is sanitizing this sector through the orderly resolution of the failed institutions in accordance with the provisions of the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930), and the Non-Bank Financial Institutions Act, 2008 (Act 774).

2. Why is the Bank of Ghana taking this action now?

Answer: Insolvent financial institutions threaten the stability of and undermine confidence in the entire financial system. The Bank of Ghana has taken action against the affected institutions after giving them ample opportunity to recover from insolvency and to address other identified supervisory concerns. The Bank

of Ghana also had to wait for the Government of Ghana to provide funds needed to compensate depositors of failed microfinance companies.

3. Which institutions are involved and how many are to be closed down?

Answer: A total of 347 microfinance companies have had their licences revoked, comprising 155 insolvent institutions that have already ceased operations, and 192 other insolvent ones. In addition, the licences of 39 microcredit companies (also known as money lenders) have been revoked, comprising 10 of such companies that are insolvent and have ceased operations, as well as 29 other insolvent ones.

4. Was there no other way of helping these institutions to survive instead of closing them down completely?

Answer: Prior to the revocation of their licences, the Bank of Ghana gave the Owners/Management of these institutions several opportunities as provided by law to take steps to rectify the identified regulatory violations and other supervisory concerns raised by the Bank of Ghana. The institutions whose licences have been revoked, however, failed to take steps to address their insolvency and other relevant issues. As mentioned above, a significant number of these institutions had already ceased operations and had locked up their offices, denying their customers of access to their funds in contravention of relevant laws. To ensure their orderly exit, and to protect the public and the financial system from further dealings with these institutions, the Bank of Ghana has revoked their licences.

5. What happened next, after the licences have been revoked? Will the institutions whose licences have been revoked be able to continue to operate as going concerns?

Answer: Following the revocation of licences of the affected institutions, they are no longer authorized to conduct microfinance or microcredit business. The affected institutions will be wound up in accordance with relevant laws. In the case of the 347 microfinance companies, the Bank of Ghana has appointed a Receiver in the person of Mr. Eric Nipah of PWC to see to their orderly winding up pursuant to the provisions of Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930). In the case of the 39 microcredit companies (money lenders), the Bank of Ghana has notified the Registrar of Companies at the Registrar General's Department of the revocation of their licences, and has

requested that the Registrar commence winding-up proceedings against these companies under relevant laws.

6. When and where will depositors of these institutions be able to receive their money?

Answer: The Government has made available funds to enable the Receiver pay depositors of the 347 microfinance companies after validation of their claims. Other creditors of the failed institutions will be settled by the Receiver in line with the hierarchy of creditors' claims set out under Act 930. The Receiver will in due course make an announcement with regards to when and where payments will be made. The Receiver will also indicate documents required from depositors to facilitate the validation of claims and orderly payment of depositors and other creditors.

7. What happens to other creditors, aside depositors, and the counterparties who may have other agreements with these institutions?

Answer: The Receiver will register, verify, and validate claims from all creditors of microfinance institutions. Validated claims will be paid in accordance by the Receiver in accordance with the priority of payments set out in sections 135 of the Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930).

8. What should I do if my name is not captured in the books of the specified institutions?

Answer: Any depositor whose name is not captured in the records of the affected institution can still present proof of deposit in their possession to the Receiver for validation. Once it has been properly validated, you will be paid in accordance with the arrangements set out in point 7 above.

9. Is it still safe to do business with microfinance companies and microcredit companies?

Answer: Yes, it is still safe to do business with microfinance companies and micro credit companies whose licences have not been revoked. There are now 137 microfinance companies and 31 microcredit companies whose licences have not been revoked given that they are in good standing with the Bank of Ghana's regulatory requirements. A list of institutions in good standing is available on the Bank of Ghana's website.

10. Who is the Receiver and what is he expected to do?

Answer: The Receiver is Mr. Eric Nipah of PricewaterhouseCoopers (PwC). He is required by law to take control over all 347 microfinance companies for which he was appointed and to see to the orderly winding up of the affected institutions in line with sections 123-139 of the Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930). Working under the supervision of the Bank of Ghana, he will realise any remaining assets of the affected companies and pay out claims of these companies that are verified.

11. What about the 39 micro credit companies? Who will see to their winding up?

Answer: The Bank of Ghana has notified the Registrar of Companies (Registrar General's Department) of the revocation of the licences of the 39 micro credit companies and has requested the Registrar to commence winding-up proceedings against these companies. These microcredit companies were licensed by the Bank of Ghana under the Non-Bank Financial Institutions Act, 2008 (Act 774) as non-deposit taking institutions. Act 774 does not provide for receivership proceedings unlike Act 930 which regulate deposit-taking institutions like the microfinance institutions. The Bank of Ghana therefore expects the Registrar of Companies to initiate winding-up against these institutions under the Companies Act, 1963 (Act 179) and the Bodies Corporate (Official Liquidations) Act, 1963 (Act 180).

12. Will there be job losses now that these institutions have been closed?

Answer: More than 200 (two Hundred) of the affected institutions had already ceased operations on their own before their licences were revoked. As a result, they have no employees currently and there will be no job losses from the revocation of their licences, per records available to Bank of Ghana. Even for the insolvent institutions that had not ceased operations, the Bank of Ghana does not anticipate a lot of job losses as many of them had downsized their operations.

13. Will this affect the Bank of Ghana's financial inclusion agenda, given that most of the affected institutions operated

in areas that had limited access to the services of mainstream financial institutions?

Answer: We do not expect this to affect the financial inclusion agenda. While these institutions were licensed to promote the financial inclusion agenda, the majority of them veered off their mandate and rather pursued their own agenda of obtaining funds from retail and institutional sources and providing loans at prohibitively high costs as well as diverting much of the funds they obtained to their private ventures. Secondly, weak capitalization of these institutions from the onset, and poorly governance made them vulnerable and unsustainable and unable to help promote the financial inclusion agenda objective of the Bank of Ghana. The lessons learned include the fact that weak financial institutions cannot help promote financial inclusion. The Bank of Ghana's clean-up exercise should rather help build-up trust and improve access to financial services by all.

14. What happens to the owners, directors and shareholders of these affected institutions?

Answer: Any persons found to have contributed to the failures of these institutions will be reported to the law enforcement agencies for further action including possible prosecution where necessary.

Also, the Receiver will institute civil actions against relevant persons to claim damages and restitution where necessary.