

## Chapter 27

# Conceptual Framework for Enhancing the Implementation of Specific Microfinance Policies in Sub-Saharan Africa

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### ABSTRACT

*Deficient policy formulation processes and inadequate monitoring and supervision remain factors impeding the growth of microfinance in sub-Saharan Africa. This article explores issues mitigating policy implementation for microfinance institutions to propose a framework that will integrate stakeholders in the microfinance sector for effective financial policy implementation and promotion of microfinance performance and growth. The article proposes financial monitoring policy ownership structure and argues for the creation of an independent national microfinance supervisory authority as an alternative to ensuring effective implementation of microfinance policies in Ghana. This framework, the authors argue, will enhance stakeholder engagement in policy formulation and create the necessary implementation environment, with adequate information, in which policy implementation for microfinance will flourish.*

### INTRODUCTION

Microfinance institutions (MFIs) are financial institutions with social agenda of deepening financial inclusion to alleviate poverty via the provision of finance to the hardcore poor who do not have access to the conventional banks (Addae-Korankye, 2012). The success of the strategy was well pronounced until there was a shift from the primary social focus to commercialization and acceptance of deposits from their clients. This later practice prompted the call for regulation for the financial subsector (Smith & Katikireddi).

DOI: 10.4018/978-1-6684-7552-2.ch027

Research on regulating microfinance institutions (MFIs) (Smith & Katikireddi, 2012; May, 2014: 1-23) to promote financial sanity and arrest the numerous problems (Addae-Korankye, 2012; Ojo, 2013; Boateng, 2015) besetting the sector yielded significant results but equal attention was not given to implementation of such regulations and policies to realize the objective of regulating (May, 2014: 1-23; Little, 2012) the financial subsector. Much therefore has not changed since the institution of various types of regulation for microfinance (MF) in sub-Saharan Africa (SSA) countries, particularly in Ghana. Despite crafting sector regulations (BoG, 2011; 2013) the recent financial scandal of DKM which robbed hundreds of depositors of their hard-earned income (Sarpong, 2016) proves that the mere presence of policies is not enough. Many observants blamed the phenomenon on the less effective supervision and monitoring by the Bank of Ghana thereby giving the MFIs a leeway to exploit their clients. This prompts this study to ask why the sub-optimal performance and rampant collapse and closure of the MFIs in Ghana.

The aim of the article is to explore the formulation process, the level of stakeholder engagement and compliance and commitment to implementation in order to propose a structure that may promote effective integrated policy formulation, review and implementation to enhance sustainability, growth and performance of the MFIs sector. This is done by providing answers to ‘How was the current microfinance specific guidelines formulated?’, ‘What was the level of stakeholder participation in the formulation and review of the current policy?’ and ‘How is implementation and compliance employed?’

The rest of this article looks at brief literature, methodology, discussion of findings, the proposed model framework for stakeholder engagement for effective policy implementation and conclusion.

## **LITERATURE REVIEW**

Empirical review presented considered MF regulation and implementation strategies in SSA and is interspersed with policy formulation theory and process, implementation theory and environments as well as a number of relevant policy implementation models.

### **Policy Formulation Theory and Process for MFIs**

Many authors define policy formulation at two broad levels: problem identification and definition which Embrett & Randall (2014) refer to as the agenda setting stage and actual formulation; including decision-making and implementation and evaluation stages. Santos (2012, p. 339) however indicates environment specificity approach to policy making. Similarly, Embrett & Randall (2014) aver policy formulation for microfinance should be random and erratic yet country specific (CGAP, 2011) as MF activities are complex; dictated by the environment that creates them (Santos (2012).

The complex activities of MF correlate with Little (2012, p. 16) and Geyer’s (2012) call for the complexity theory of policy formulation (Hallsworth & Rutter, 2011, p. 18; Cairney, 2012, pp. 1-14) which intimates that policy formulation should be regarded as a system. Therefore, policymaking involves many ideas interacting in a non-linear fashion (Smith & Katikireddi, 2012; Embrett & Randall, 2014); drawing cooperation from policymakers and implementers to ensure that those interactions (Geyer, 2012) can produce new ideas and ways of thinking (Pritchett et al., 2012).

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