GHANA ACCESS TO FINANCE NOTE

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CONTENTS

Glossary

ARB	Association of Rural Banks
AQR	Asset Quality Review
ASSFIN	Association of Financial NGOs
BoG	Bank of Ghana
CU	Credit Union
CUA	Ghana Cooperative Credit Unions Association
FINDEX	Financial Inclusion Database
FNGOs	Financial NGOs
GHS/GH¢	Ghana Cedis
GoG	Government of Ghana
MFIs	Microfinance Institutions
MLAG	Money Lenders Association of Ghana
MoF	Ministry of Finance
MSMEs	Micro, Small, and Medium Enterprises
RCBs	Rural and Community Banks
S&Ls	Savings and Loan Companies
SOE	State-owned enterprise

EXECUTIVE SUMMARY

1. **Ghana has low levels of financial inclusion of individuals and access to finance for firms remains a major challenge; some of the key issues include low ownership and usage of accounts, dominance of cash, limited access points, limited electronic and mobile transactions, and high collateral, overall limiting outreach.** Financial inclusion figures fare well compared to the Sub-Saharan Africa region, but in absolute terms only 40.5 percent of adults have an account at formal financial institution[1]. Ownership and usage of electronic payment instruments is very low and the majority of transactions are conducted in cash. Mobile banking in Ghana is at a nascent stage with only 13 percent of adults having a mobile account and the number of mobile phone-based financial transactions[2] is incipient. While majority of small and medium firms have access to formal accounts, large majority of them relies on internal finance for investments, with only around 23 percent having a bank loan or line of credit. Private sector credit to GDP is low at about 19 percent in 2014. Ghana's limited infrastructure restricts access to both formal and unregulated financial institution, particularly in rural areas, with limited number of branches and ATM networks. Finally, high collateral requirements of over 200 percent of the loan amount for all-sized firms and over 250 percent for small firms, with real property as the most frequent type of collateral required, makes access to formal finance virtually prohibitive for many firms.

2. **The banking sector has experienced substantial growth in recent years and remained profitable, though asset quality has been deteriorating which requires further action by Bank of Ghana to preserve stability; further, the sector is moderately concentrated with low efficiency of bank operations and high spreads.** Banking assets have more than tripled over the past six years, and the sector has been very profitable with ROA and ROE of 4 and 28.2 percent respectively. However, this may likely change as a result of deterioration in asset quality with NPL ratio reaching 14.9 percent, with some smaller and state-owned banks showing even higher NPL ratios. BoG has developed a strategy and initiated measures to resolve raising NPLs, including conducting an updated asset quality review. However, delays and partial implementation of the strategy, including the failure to ensure timely recapitalization of weak banks or repayment of emergency liquidity support, risks further deterioration in asset quality and could pose serious risks to financial stability. The bulk of lending remains short term, though loan tenors have lengthened over the last five years with approximately 40 percent of loans with maturities of 1 to 5 years. Efficiency has deteriorated and cost ratios remained higher than amongst most peers; overhead costs to total assets are higher than most country comparators and the regional average in 2014. Average nominal lending interest rates and spreads are high at about 30 percent and 16 percent, respectively. Operating costs are the main driver of interest rate spreads in Ghanaian commercial banks, in yet another sign of inefficiency, followed by profit margins. In addition to unfavorable interest rates, increased crowding out of the private sector further limits access to credit. Tighter monetary policy and increased government borrowing has led to an increase in treasury bill and government bond rates; even when considering the increase in inflation during the same period, real interest rates have increased by 90 basis points between early 2014 and the end of 2015.

[1] WB Global Findex Database, 2014. "Account at a financial institution" includes respondents who report having an account at a bank or at another type of financial institution, such as a credit union, microfinance institution, cooperative, or the post office (if applicable), or having a debit card in their own name.
[2] WB Global Findex, 2014.

3. **Microfinance sector represents approximately 15 percent of total financial institutions' assets[3] as of 2014 and faces a number of challenges requiring regulatory response towards resolution of failing institutions and strengthening overall sector regulation and oversight.** The number of clients of microfinance institutions (MFIs) grew from 1.3 million clients in 2001 to around 8 million by the end of 2013.[4] Bank of Ghana (BoG) issued Guidelines for Microfinance Institutions in 2011 as a response to the proliferation of businesses taking savings and making loans that were registered as companies but not licensed as financial institutions. The regulatory net was cast wide in an attempt to minimize "regulatory arbitrage" by allowing some types of MFIs to escape regulation, and requirements were initially set low in order to bring as many operators into the system as possible. The new regulations faced difficult challenges of implementation, largely because they were imposed on a very large number of existing institutions without adequate prior capacity building of regulators, MFIs, and their associations. This has ultimately resulted in the collapse of a substantial number of microfinance operators. The MFI sector remains important for financial inclusion but requires reform and better regulation and oversight.

4. **The leasing sector could add a boost to facilitating access to credit for those without collateral and credit history, but despite growth in recent years operates below estimated market potential, in part as a result of regulatory challenges and term funding constraints.** Following a substantial decline after 2007, coinciding with global financial crisis, the market has experienced recovery since 2010 and nearly doubled in size by 2015 to around US$250 million, though far below the estimated market potential of over US$600 million. Despite growth over the last few years, the market composition has changed with the continuous decline in the performance of non-bank leasing sector and rising dominance of bank led leasing operations, because of regulatory changes that allowed banks to undertake financial leasing as part of their regular operations as well as due to funding constraints. The potential implications of a bank led model include lack of sufficient focus on leasing (vs. financing) which may leave some customers underserved. Further, the legal framework for leasing comprises several laws, including ambiguities and provisions creating unleveled playing field amongst diverse set of market participants.

5. Substantial progress was recorded in improving financial infrastructure over the recent years, specifically in the areas of credit reporting, secured transactions, and payment system, though certain challenges remain and need to be addressed:

- ***The credit reporting system has been operating in Ghana for several years with a legislation passed in 2007, warranting review and modernization.*** There are three private bureaus servicing the industry and several dozens of credit providers utilizing the credit information services under the supervision of the Bank of Ghana. However, there are no uniform formats and policies to collect and report data, making it difficult for lenders to meet these requirements. It is particularly hard for MFIs to meet these technical requirements, and as a result, most of their portfolio remains unreported to credit bureaus, even though they hold the greatest percentage of the credits to consumers and small businesses in Ghana. In addition, information from non-financial institutions (e.g. utilities, telecoms) is not yet covered. Finally, the BoG decided to establish a credit registry to collect standardized information based on which the bureaus would prepare reports for credit providers; this works requires allocation of sufficient budget and reorganization of the department responsible for data collection.

[3] Total financial institutions includes Banks, NBFIs, RCBs, and MFIs that are supervised by the Bank of Ghana.
[4] Ghana Microfinance Institutions Network (GHAMFIN), 'Performance Monitoring and Benchmarking of Microfinance Institutions in Ghana: Trends in the Industry during the 2000s (2006-12),' Accra, 2014.

- ***The Collateral Registry was launched in 2010 and despite its success to date it is important to address specific regulatory gaps and operational challenges to reap additional benefits.*** The Collateral Registry has been fully web-based since June 2012 and to date it has secured tracking and analysis of US$12 billion in financing using movable assets as collateral through more than 75,000 loans (originated both before and after the launch of the registry). Eighty percent of these loans were granted to individuals/micro entrepreneurs and 15 percent to small and medium enterprises.
- ***Ghana has made significant progress in the reform of the payment system since embarking on the collaborative payment systems modernization process, but it requires upgrade and better oversight.*** This included passing the Payment Systems Law in 2003, introduction of the real time gross settlement system (GIS); the automated clearing house; the national switch; cheque code line clearing which significantly reduced the cheque clearing period throughout the country; central securities depository; and the increase in the number of banks offering payment services to customers. Some of the priorities include provide standalone status and capacity building of the payment system oversight function at the BoG, devising strategies for achieving full interoperability and utilization of the Ghana Interbank Payment and Settlement Systems, and a comprehensive review of the legal and regulatory framework governing payment and securities settlement systems.

Table 1: Key Recommendations

Area	Recommendation	Responsibility	Term
Banking Sector	• Vigilantly ensure full and timely implementation of the strategy to address bank asset quality in order to maintain financial stability	BoG	Short
	• Review the base rate formula provided by the Bank of Ghana to determine the minimum interest rates charged on loans to avoid a *de facto* floor for commercial bank lending rates.	BoG	Short
	• Promote banking sector competition, initially through regular disclosure of standardized interest rates and fees	BOG	Medium
	• Promote mobile banking in line with new regulations as means to increase bank efficiency and delivery of banking services.	BoG	Medium
	• Reduce crowding out of private sector by addressing fiscal dominance.	BOG,MOF, GOG	Medium/ Long
Microfinance Sector	• Develop Regulatory Strategy for MFI sector, along with an implementation action plan, aimed at reforming the sector and enabling better regulation and supervision.	BoG	Medium
Leasing Sector	• Initiate review and modernization of the regulatory and supervisory framework for leasing, including Finance Lease Act, Banking Act, NBFI Act, and Internal Revenue Act to ensure a harmonized framework that promotes level playing field and market development.	BoG, MoF	Medium

Credit Reporting	• Issue a directive on the standard data format and validation rules to be implemented uniformly by all active data providers to report to credit bureaus. • As an interim solution, until the regulatory framework is reformed, issue a directive to report other data sources (e.g. utilities, telecoms) and to report defaulters even if they revoke their consent. • Allocate sufficient budget for the operationalization of the Credit Registry, along with restructuring of the department responsible for data collection to enable it to assume this new role. • Review the Credit Reporting Act along with other relevant legislations on provision of credit.	BoG BoG BoG BoG	Medium Short Medium Short
Secured Transactions	• The Borrowers and Lenders Act should be overhauled to create a unified, certain, transparent and efficient regime for secured transactions. • The judicial enforcement framework that operates outside secured transactions laws should be reviewed to ensure that affected parties have access to efficient remedies as soon as the amendments take effect. • Review Prudential Lending Guidelines for Loan Classification and provisioning for defaulted debt. • The Collateral Registry system needs to be upgraded in line with best practice. • Ensure continuous awareness and facilitate training and capacity building related to movables financing.	BoG BoG,GoG BoG BoG BoG, Other Stakeholders	Medium Medium Medium Short Medium/ Long
Payments	• Provide for standalone status of the payment system oversight function and incorporate explicit provisions in the PSA in order to strengthen the BoG's mandate in this area. • Embark on capacity building of payment system oversight function by strengthening NPSO which is a prerequisite for maintaining a strong oversight function within BoG. • BoG should consider devising strategies for achieving full interoperability and utilization of the state of the art systems at the GhIPPS. • Conduct a comprehensive review of the legal and regulatory framework governing payment and securities settlement systems. • Address oversight capacity constraints at the BoG in order to ensure that the central bank carries out this function in line with international good practice. • BoG and SEC should consider combined training on the PFMIs in order to ensure better coordination and understanding.	BoG BoG BoG BoG, SEC BoG BoG, SEC	Medium Medium Medium Medium Medium Medium

INTRODUCTION

The Access to Finance Note for Ghana identifies key issues and recommendations to enhance access to formal financial services for firms and to promote financial inclusion of individuals. The note provides a status of financial inclusion and access to finance in Ghana, along with a review of banking and microfinance sectors, including decomposition of interest rate spreads based on available data, leasing sector, as well as key financial infrastructure issues related to credit reporting, secured transactions, and payment system. Further, this note complements a collection of analytical work related to access to finance agenda, including notes on the microfinance sector, private equity and venture capital, diagnostic review of financial consumer protection, and a study on development finance, all providing more details on these topics.

I. OVERVIEW OF ACCESS TO FINANCE ISSUES

A. Overview of the Macroeconomic Context and the Financial Sector

Macroeconomic Overview

1. **After two decades of strong growth, Ghana's economy has slowed sharply following increases in macroeconomic imbalances and other vulnerabilities.** Growth in Ghana averaged 5.7 percent between 2001 and 2010. Annual growth then doubled to 10.2 percent between 2010 and 2013 due to positive terms of trade, large oil and gas discoveries, substantial capital inflows, and a reputation for strong institutions. However, a series of shocks in 2014 caused growth to decline to 4 percent and estimated 3.5 percent in 2015. Public debt increased as the fiscal and current account deficits widened. Inflation has risen to 17 percent and interest rates on T-bills surpassed 25 percent in 2015, contributing to the crowding out of credit to the private sector. Net international reserves fell as external debt payments increased. The Ghanaian Cedi depreciated by 35 percent against the dollar in the first half of 2015 in the interbank market and by 43 percent in the forex bureau market.

Financial Sector Overview

2. **The financial sector in Ghana is diverse and has grown rapidly over the past five years, but it remains bank-centric.** The system is comprised of 28 banks[5], 60 non-bank financial institutions[6] (NBFIs), 138 rural and community banks (RCBs), and 503 microfinance companies (MFCs), with total assets accounting for 54 percent of GDP in 2014, up from 34 percent of GDP in 2010. Other financial institutions include 103 pension fund service providers, 49 life and non-life insurance companies, and 3 reinsurance companies. In addition, the system also includes other types of microfinance institutions, including savings and loans (S&Ls), credit unions (CUs), financial non-government organizations (FNGOs), moneylenders and traditional Susu collectors[7]. However, commercial banks dominate the financial sector, accounting for 75 percent of the total assets of the

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[5] A new license was issued to First National Bank (a subsidiary of the FirstRand Group from South Africa) in 2015, bringing the total number of commercial banks to 29. FNB started operations late in 2015 and was officially launched at end-March 2016.

[6] Non-bank financial institutions include financial companies, savings and loans companies, leasing companies, and mortgage finance companies.

[7] Susu collectors are traditionally trustworthy people in the community (more commonly found in urban areas), who collect very small deposits from various people in the community on a regular basis (often daily).

financial system followed by pension funds with 12 percent and the insurance sector with only 4 percent.

3. **Despite the growth of the financial system, private sector credit and total deposits as a percent of GDP remain below the regional average.** Private sector credit to GDP is low at about 19 percent in 2014 compared to the Sub-Saharan Africa (SSA) average of about 24 percent (*Figure 1*). Meanwhile, the ratio of total deposits to GDP is about 27 percent in 2014 versus the 31 percent average for SSA (*Figure 2*). In addition, both credit and deposit indicators are below expected statistical benchmark values calculated considering Ghana's level of development and structural characteristics (FinStats 2016).

4. **Given the challenging macroeconomic environment, the Bank of Ghana (BoG) is pursuing a course of tight monetary policy which has led to an increase in interest rates.** The monetary policy has been raised by 800 basis points between February 2014 and November 2015, from 18 percent to 26 percent. Other nominal interest rates in the economy also increased accordingly within the same period. The rate on 91-day treasury bills increased by 400 basis points, from 20.4 percent to 24.5 percent. Meanwhile the interbank rate increased by almost 800 basis points, from 17.2 percent to 24.9 percent. Lastly, the average lending rates increased by about 300 basis points, from 26.6 percent to 29.2 percent. Even when considering the increase in inflation during the same period, real interest rates have increased by 90 basis points between early 2014 and the end of 2015.

Figure 1. Private Sector Credit to GDP (%)

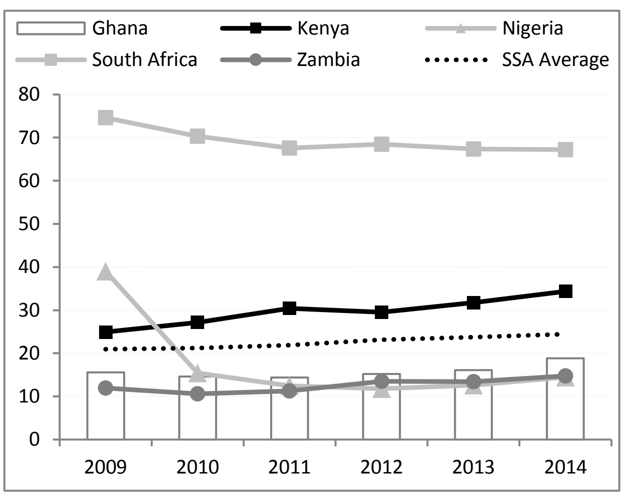
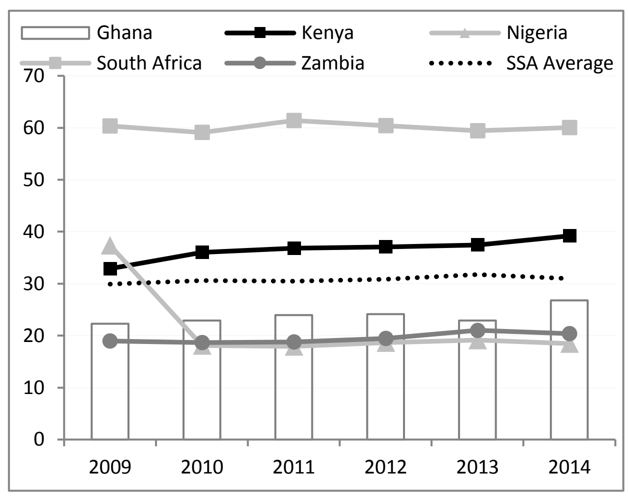


Figure 2. Total Deposits to GDP (%)



Source: World Bank FinStats 2016

5. **Asset quality has been deteriorating, due to the difficult economic conditions and higher interest rates.** The ratio of banks' non-performing loans (NPLs) net of provisions to capital has been relatively high (over 14 percent) since December 2009, but this ratio has been decreasing since December 2011. However, this NPL ratio rose to 14.9 percent by December 2015, from 11.3 percent in December 2014. There is large variability in the system, with some smaller and state-owned banks showing even higher NPL ratios. Asset impairment is also rising in large banks, particularly those with significant exposures to the oil distribution sector. The commerce and finance sector account for the largest amount of NPLs in the banking sector followed by the services and manufacturing sectors, respectively. NPL growth in certain sectors was largely caused by exchange rate volatility and the

declining oil prices. In addition, cocoa production fell to a five-year low during the 2014/2015 season, which had a negative impact on NPLs for some banks.

6. **The BoG has initiated measures to address rising NPLs.** An asset quality review (AQR), a special external audit of commercial banks to review asset classification and valuation, provisioning and loan restructuring practices, was conducted and finalized in December 2015. The review found that some banks were under-provisioning, particularly for State-owned enterprises (SOEs) and the oil sector, and the reclassification of some banks' portfolios contributed to a further increase in NPLs by mid-2016. Banks also increased their provisions in response to 7.9 percent of gross loans, from 5.1 percent. BoG has put in place a strategy to address these weaknesses and ensure financial stability. As part of this strategy, an updated AQR is now underway, including an assessment of SOE legacy debt following their financial rehabilitation and the clearance of government arrears to the oil sector, and recapitalization/restructuring plans will be required from affected banks. In addition, plans are underway to settle outstanding claims by oil companies and are to be reviewed by February 2017. These plans should, in turn, help banks to resolve NPLs from these entities. Other efforts by BoG include the introduction of a temporary special liquidity monitoring scheme, the adoption of a new Emergency Liquidity Assistance framework, and the issuance of new directives to clarify some ambiguities in the IFRS standard.

7. **In light of increasing credit risks and interest rates, the conditions conducive for financial inclusion are likely to deteriorate.** High NPLs tend to reduce bank capital, lower profitability, and increase funding costs, which adversely affects the capacity and willingness to bank lending. As a result, banks and other financial institutions may refrain from taking on new risks and/or reduce existing exposures to risky market segments such as bottom of the pyramid enterprises (i.e. micro, small and medium enterprises - MSMEs) and individuals. Further, high rates on T-bills have increased preference for these instruments by non-financial companies and individuals, which may reduce deposit mobilization and, in turn, have negative consequences on intermediation.

B. Status of Access to Finance

Financial Inclusion of Individuals

8. **Ghana's financial inclusion figures fare well compared to the Sub-Saharan Africa (SSA) region[8] and the average for lower middle-income countries, with 40.5 percent of adults having an account with a financial institution[9].** According to 2014 World Bank Global Financial Inclusion Database ("Global Findex") Ghana performs better than the SSA regional average of 34.2 percent of adults (age 15 and above) having an account, and slightly better than some lower middle income countries like Tanzania and Zambia, with 39.8 and 35.6 percent respectively.

9. **Although Ghana's gender gap in account penetration has narrowed in recent years, the gap between income groups remains strong.** 39.4 percent of the Ghanaian female population have an account. Account penetration among the rural population also fares well standing at 34.5 percent.

[8] Sub-Saharan Africa includes: Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Chad, Comoros, DRC, Republic of Congo, Ivory Coast, Ethiopia, Gabon, Ghana, Guinea, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Namibia, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Tanzania, Togo, Uganda, Zambia, and Zimbabwe.

[9] WB Global Findex Database, 2014. "Account at a financial institution" includes respondents who report having an account at a bank or at another type of financial institution, such as a credit union, microfinance institution, cooperative, or the post office (if applicable), or having a debit card in their own name.

Meanwhile, account penetration among adults in the poorest 40 percent of households, stands at 30 percent, and for those in the richest 60 percent, stands at 47.6 percent resulting in the most significant and largest gap in the country. Levels of banking also climb with education, 53.6 percent of people with secondary education have bank accounts, but only 24.9 percent of those with primary education or less do (*Figure 3*).

10. Formalization of MFIs has significantly contributed the increase in financial inclusion, although resulting in challenges for supervision. The number of clients of microfinance institutions (MFIs) grew from 1.3 million total clients in 2001 to around 8 million by the end of 2013.[10] At the same time, formalization has also introduced regulatory challenges with supervision of a large number of licensed institutions.

Figure 3. Financial Inclusion in Ghana by Demographic Features

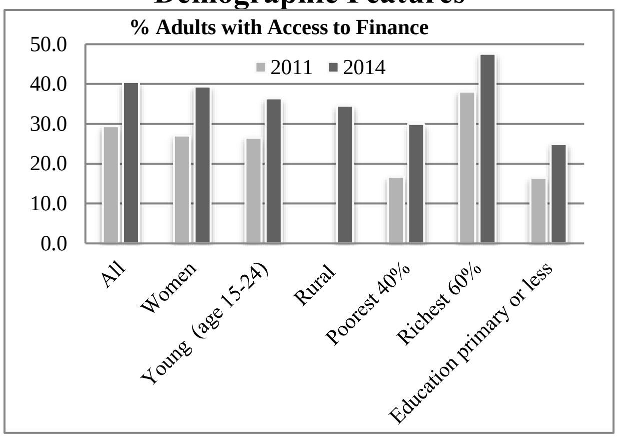
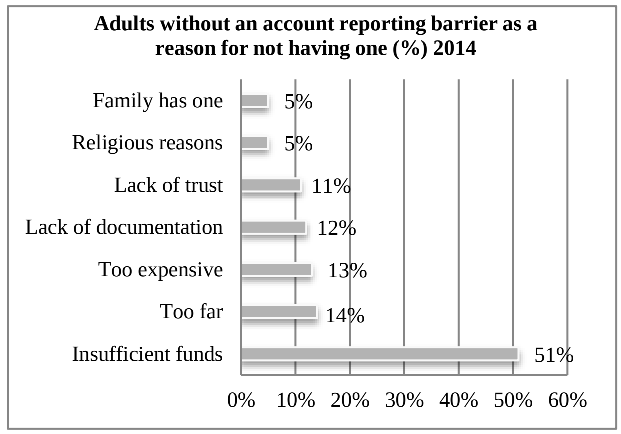


Figure 4. Barriers to Account Ownership



Source: WB Global Findex, 2014

11. Ghana has experienced substantial growth in account penetration since 2011. According to the 2010 Ghanaian population and housing census, around half of the population live in rural areas. Prior to establishment of Rural Community Banks (RCBs) in the late 1970's and their subsequent expansion, not only financial services were scarce but rural dwellers had to travel long distances to reach formal financial institutions to make and receive payments, make deposits, etc.[11]. Nevertheless, according to Global Findex data, distance is still one of the main reported reasons why unbanked adults do not have an account (*Figure 4*).[12]

12. The expansion of mobile money[13] in Ghana is gradually leading to increased financial inclusion. Mobile banking in Ghana is at a nascent stage with only 13 percent of adults having a mobile account and the number of mobile phone-based financial transactions[14] is incipient. However, similar to other Sub-Saharan countries like Rwanda and South Africa, Ghana is starting to show significant progress on mobile money usage and activity.

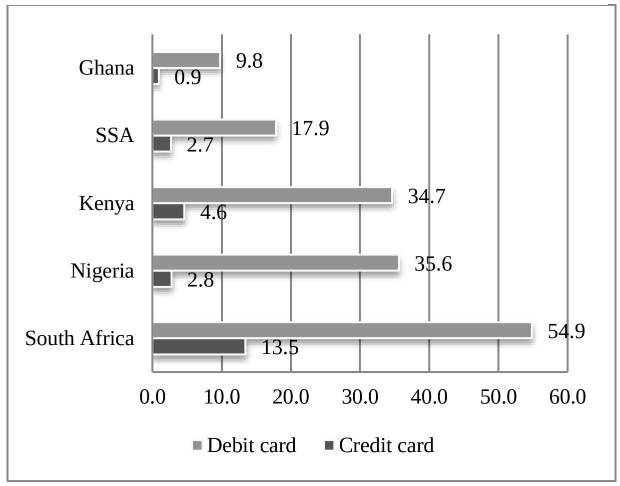
13. While mobile money remains limited, there are opportunities to scale up its use for increasing savings as well as wage and bill payment. In Ghana, sending and receiving person-to-

[10] Ghana Microfinance Institutions Network (GHAMFIN), 'Performance Monitoring and Benchmarking of Microfinance Institutions in Ghana: Trends in the Industry during the 2000s (2006-12),' Accra, 2014.
[11] Rural Banking: The Case of Rural and Community Banks in Ghana. Ajai Nair and Azeb Fissah. World Bank, 2010.
[12] Respondents could choose more than one reason.
[13] Mobile money services in Ghana were introduced in 2009.
[14] WB Global Findex, 2014.

person (P2P) payments are by far the most common uses of mobile money services. Over 50 percent of respondents of the Financial Inclusion Insights (FII) Ghana 2015 survey[15] reported starting to use mobile money because they had to receive money from another person and 15 percent because they had to send money. Only 3 percent of active account holders reported starting to use mobile money because they wanted to start saving. Use of mobile money could potentially help to scale up savings and other electronic financial services such as receiving wages and paying bills[16].

Ownership and usage of electronic payment instruments is very low and the majority of transactions are conducted in cash. According to Global Findex, only 9.8 percent of Ghanaian adults reported to have a debit card, and less than one percent reported to have a credit card. Usage is lower at 4.4 percent for debit cards and incipient at 0.6 percent for credit cards. The use of checks to make payments also stand below 10 percent. Thus, there could be an opportunity to encourage greater access to and usage of electronic means of payments and other channels for banking.

Figure 5. Payment Card Ownership (% age 15+)



Source: WB Global Findex, 2014

14. Ghana's limited infrastructure restricts access to both formal and unregulated financial institution, particularly in rural areas. The number of branches and ATMs of Deposit Money Banks (DMBs) reached 967 and 932 respectively in 2014[17]. The low density of bank branches (at 6.1 per 100,000 adults) compares with the regional trends but stands below the SSA regional average of 8.7 branches per 100,000 adults, and only 8.2 automatic teller machines (ATMs) per 100,000 adults, and poses a challenge to access financial institutions. Despite modest recent growth observed in the ATM network, the still small distribution of ATMs may be contributing to an ongoing reliance on bank tellers as the main mode of deposits and withdrawals.

[15] InterMedia CGAP survey, December 2014-January 2015.
[16] InterMedia CGAP Ghana Survey, December 2014-January 2015.
[17] Annual Report, 2014. Bank of Ghana.

Figure 6. Ghana's Bank Branch and ATMs Network (per 100,000 adults)

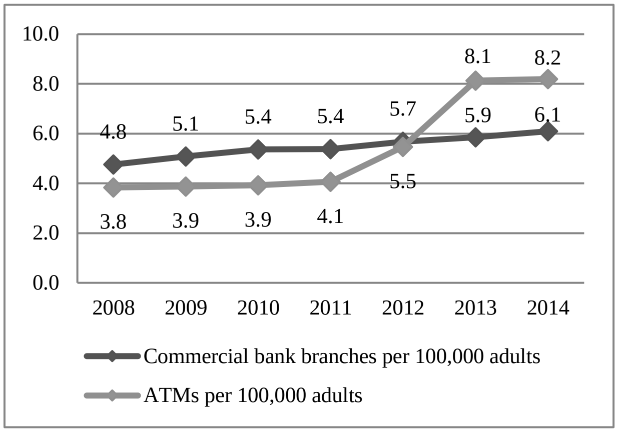
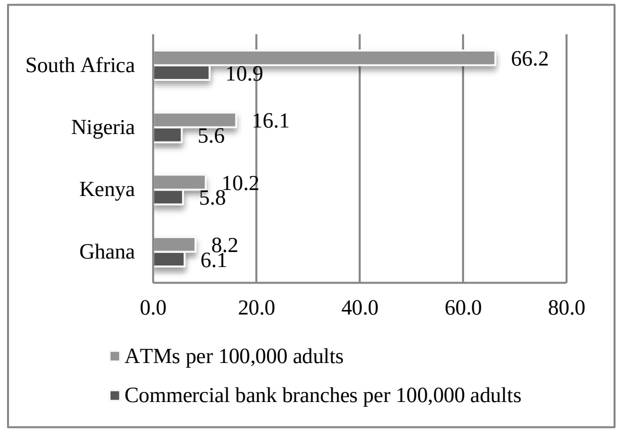


Figure 7. Bank Branch and ATMs Penetration (per 100,000 adults)



Source: IMF Financial Access Survey (FAS) 2013

Table 2. Main Mode of Deposits and Withdrawals

Main mode of deposit (% with an account, age 15+)	Nigeria	Kenya	South Africa	Tanzania	**Ghana**	SSA
ATM	0.9	4.2	13.8	9.3	2	6.2
Bank agent	1.3	3.9	0.2	5.7	1.3	1.9
Bank teller	97.4	81.4	71.4	81.7	94.3	85.3
Retail store	0.3	5.3	1	1.2	0.9	1.6
Main mode of withdrawal (% with an account, age 15+)	Nigeria	Kenya	South Africa	Tanzania	**Ghana**	SSA
ATM	70.5	52.7	81.8	62	19.9	31.1
Bank agent	1	2.2	0.2	5.5	1.2	3.8
Bank teller	20.7	33.2	7.6	9	67.1	56.3
Retail store	0.1	0.7	1.8	0.8	1.2	1.8

Source: WB Global Findex, 2014

15. **There is a large unserved potential market of savers and borrowers in the country.** In 2014, about 55 percent of Ghanaian adults saved or set money aside in the past year, but only 19 percent saved with a financial institution, yet standing above the 16 percent for the SSA region. Similarly, while 36 percent of Ghanaian adults reported to having borrowed any money within the last year, only 8 percent borrowed from a financial institution, mostly relying on informal sources such as family and friends (22 percent of adults over age 15 years reported to save with family and friends).[18]

16. **While slightly better in comparison to SSA peers and the lower-income country averages, access to credit remains low.** Also according to Global Findex data, while the percentage of adults that reported to have borrowed from formal institutions in the SSA region stands at 6 percent, the lower-income countries average at 8 percent, and several peer countries standing around 5 to 6 percent. While access to formal credit of adults in Ghana stands at only 8 percent, there is potential to

[18] WB. 2015 The Little Data Book on Financial Inclusion 2015.

expand access to credit opportunities, particularly among the young population, as only 3 percent of adults ages 15-24 reported to have borrowed money from formal financial institutions, compared to 26 percent that reported to have borrowed any money in the past year.

17. The share of Ghanaian adults with a mortgage is higher than the regional average, but remains low in absolute terms with room for improvement. Twelve percent of adults have outstanding mortgages, which is comparable to Kenya, and above regional SSA average of 5.2 percent and above other peers.

Table 3. Adults with an Outstanding Mortgage

Outstanding mortgage	Nigeria	Kenya	South Africa	Tanzania	**Ghana**	SSA
all (% age 15+)	6.3	12.1	9.2	4.5	12.0	5.2
female(% age 15+)	4.4	10.8	8.7	4.6	12.2	4.6
poorest 40%(% age 15+)	7.1	8.6	4.2	2.3	10.2	3.8
rural (%age 15+)	8.1	12.6	6.1	3.9	9.6	5.0

Source: WB Global Findex, 2014

18. The Financial Inclusion Insights (FII) Ghana 2015 survey[19] reveals a similar landscape for access to and use of financial services in the country. The survey found that half of Ghanaian adults have access to financial services through a bank or mobile money account, which is comparable to Global Findex data. Whereas banks remain the key drivers of registered use of financial services, mobile money, currently at a developing stage, is also contributing to increased financial inclusion. Among FII peers namely Kenya, Tanzania, Uganda and Rwanda, Ghana has the highest rate of registered bank accounts (34 percent of adults).[20]

19. In Ghana, financial inclusion has expanded fastest in more excluded areas. Also according to the FII Ghana survey**,** rural access to formal financial services has doubled since 2010 reaching 51 percent in 2015. While rural banking access has grown better than national average (expanded by 30 percent since 2010), rapid growth in non-bank formal services in a combination of mobile money and other non-bank formal institutions, drives the expansion of financial inclusion. In contrast, among the urban population who report having bank accounts, there was a 17 percent drop from 2010 to 2015.

20. Access to formal financial services has grown slightly faster for women than for men, with non-bank services substantially contributing to their formal inclusion. Access to formal financial services grew fastest among the female population at 54 percent from 2010 to 2015 compared to 37.7 percent among the male population. The survey found that women were more likely to rely on non-bank formal financial services for access than men. While the gender gap remains, again, similar to Global Findex data, the big gap in access to accounts is income related.

21. The survey also indicates that 80 percent of bank account holders reported having at least one form of digital bank access. Bank accounts with digital access are the most common form of digital financial access (41 percent of Ghanaians have digital access to their financial accounts) followed by mobile money accounts. Further, while 20 percent of adults in Ghana have a mobile

[19] InterMedia CGAP survey, December 2014-January 2015.
[20] Despite the progress achieved, 17 percent of adults have to rely on informal financial services to their financial access, while 25 percent of adults remain excluded.

account, 17 percent of adults have used them in the last 90 days. While these figures position Ghana behind the regional leaders like Kenya, Tanzania and Uganda, they also show significant progress achieved compared to many other countries.

22. Finally, a young and mostly urban population shows signs of financial stability and active financial lives. Sixty-seven percent of adults reported to save or safe keep money[21] and 65 percent of adults reported to buy or own insurance, while only 10 percent reported to borrow money or take loans. The FII survey, which compares Finscope (2010) data, found that the use of most commercial financial products has significantly grown in the last five years, particularly in the use of formal remittance products with a fivefold increase and with 24 percent of adults using these products. The use of transactional and savings products show significant improvement as these grew by 20 to 25 percent; meanwhile, the use of insurance[22] doubled. On the other hand, the use of credit products slightly fell to 7 percent in 2015.

Access to Finance for Firms

23. Access to finance remains a major challenge for doing business in the country, affecting competitiveness and growth of Ghanaian firms. Ghana ranked 119 out of 140 economies in the World Economic Forum's Global Competitiveness Index for 2015-2016[23], which reported access to financing as the biggest constraint for competitiveness of Ghanaian firms. According to the Doing Business (DB) 2016 report, Ghana ranked 114 out of 189 economies globally in overall ease of doing business, losing two places in one year. Despite a relatively good standing in the Getting Credit indicator, (Ghana stands at 42 in the ranking of 189 economies on the ease of getting credit), the country fell 6 places from 2015 to 2016[24] in this pillar. Similarly, the World Bank's Enterprise Survey (ES) 2013 found that 62 percent of companies ranked access to finance as a major constraint to their day a day operations and consequently for enterprise growth, exceeding the regional and global averages of 41 and 29 percent respectively (*Figures 8 and 9*).

24. While an increasing number of firms used financing services in 2012 compared to 2007, firms' access to credit remains constrained, particularly among SMEs. According to the World Bank's Enterprise Survey (ES) 2013, 99 percent of large companies have a checking or savings account. For medium and small firms, account ownership stands at 98.8 percent and 93 percent, respectively. Ghana ranks 65 out of 144 countries in ease of access to loans. The ES also found that 79.9 percent of small firms and 74.6 percent of medium firms finance their investments from retained earnings, and only 8.1 percent of small firms and 15 percent of medium firms operations are supported by working capital loans from banks. In Ghana, only 23 percent of firms have a bank loan or line of credit, below the global average at 34 percent, and less than 25 percent of firms reported to have an overdraft facility.

25. SMEs are more constrained in accessing credit than larger companies. According to the 2013 ES, 72 percent of smaller enterprises and 52 percent of medium enterprises were constrained by

[21] Using a hiding place (27% of Ghanaian adults) is almost as common as using a bank (32% of Ghanaian adults) for saving or safekeeping money.

[22] Medical is the most common form of insurance.

[23] The Global Competitiveness Report 2015-2016 assesses the competitiveness landscape of 140 economies, providing insight into the drivers of their productivity and prosperity. Inflation and Foreign Currency regulations were cited as the second and third most problematic factors for doing business in the country.

[24] Ghana strengthened access to credit by establishing a centralized collateral registry and by granting an operating license to a private credit bureau that began operations in April of 2010.

access to credit while only 23 percent of larger companies indicated they are credit constrained. Further, SMEs are particularly vulnerable to high interest rates and restrictive lending conditions. Banks and other financial institutions have traditionally avoided the SME sector and do not tend to have tailored lending policies. Small and informal firms face higher transactional costs and often lack collateral and documentation of their assets and financial position. SMEs loans financed out of the normal business portfolio of a commercial bank have shorter terms, often less than 12 months, and secured by deposits or immovable collateral. Interest rates on these loans are typically above the, already high, the benchmark 91-day T-bill yield of 25 percent.[25] Collateral requirements are prohibitive at 240 percent of the loan value, compared to 181 percent on average in sub-Saharan Africa and 195 percent globally.

Figure 8. % of Ghanaian firms identifying A2F as a major constraint (per firm size)

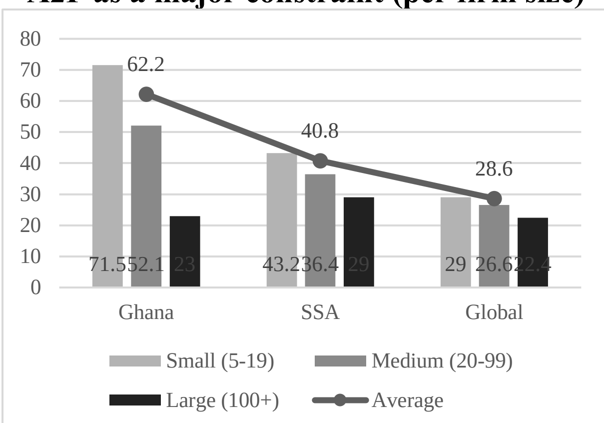
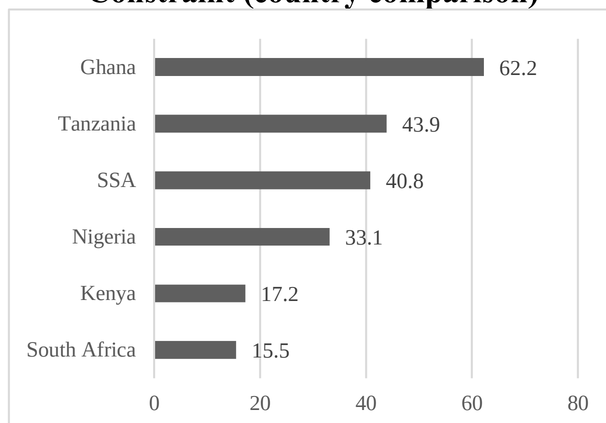
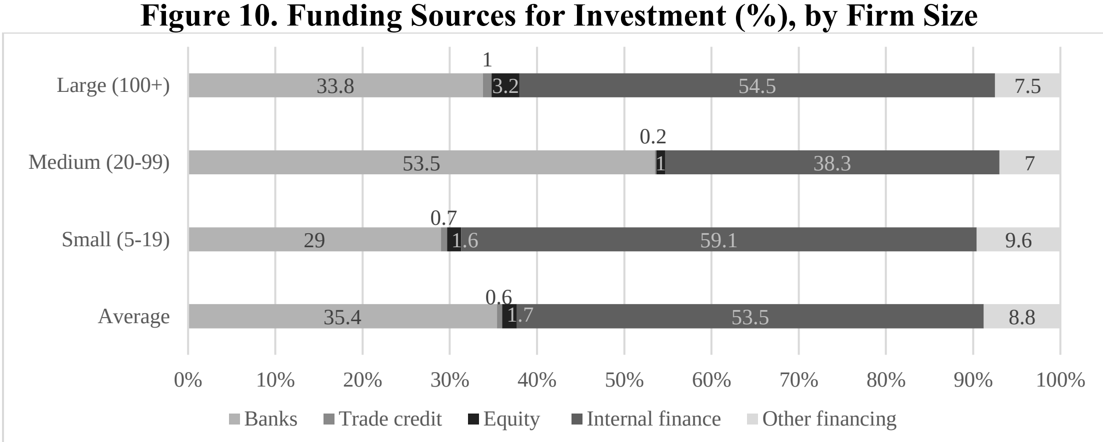


Figure 9. Access to Finance as a Major Constraint (country comparison)



Source: WB Enterprise Survey, 2013

Figure 10. Funding Sources for Investment (%), by Firm Size



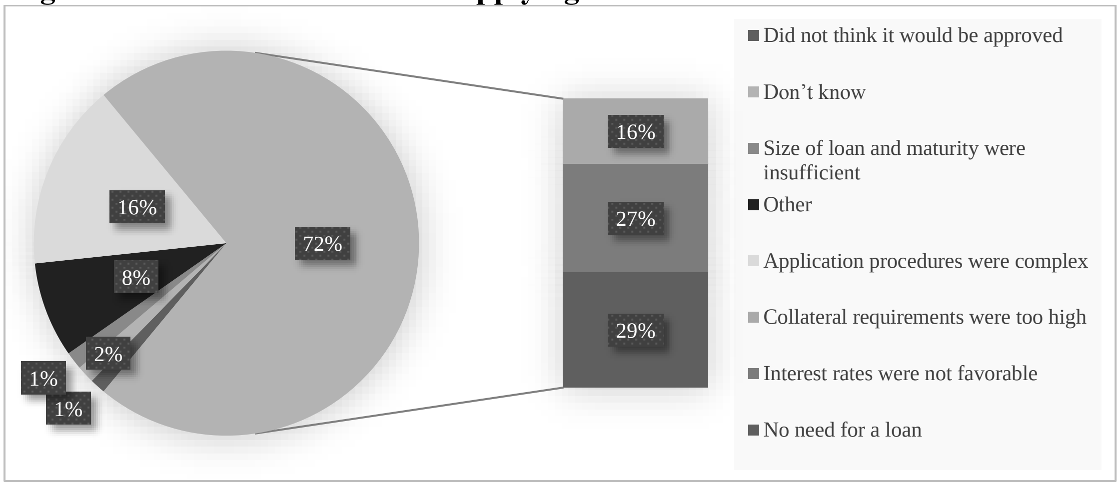
Source: WB Enterprise Survey, 2013

26. Most firms did not apply for a loan or line of credit due to the lack of need for a loan and unfavorable interest rates. Findings from the 2013 Enterprise Survey indicate that the lack of need for a loan (which confirms the previously mentioned reliance on internal financing) and high interest

[25] http://semcapitalgh.com/downloads/research/SME_Financing_Schemes_in_Ghana.pdf

are the two main reasons that enterprises have not applied for loans (*Figure 11*). It is important to note that those companies that can access to financing face nominal interest rates as high as 38 percent[26].

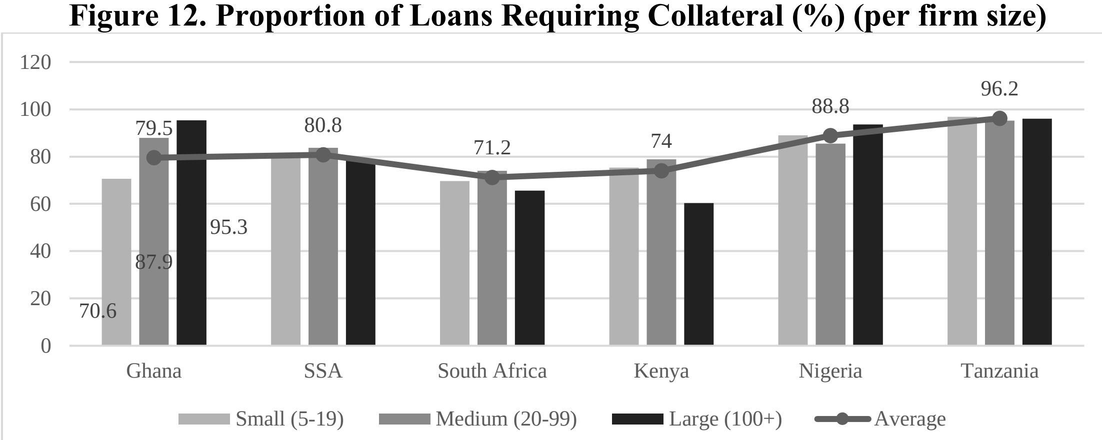
Figure 11. Main Reason for Not Applying for New Loans or New Lines of Credit



Source: WB Enterprise Survey, 2013

27. High collateral requirements and burdensome application procedures also constrain access to, and usage of, credit for firms. Ghana fares relatively well compared to the SSA average and among other regional peers with the high proportions of loans requiring collateral at 80 percent (*Figure 9*). Nevertheless, when it comes to the value of collateral needed for a loan, Ghana is among those countries with the highest average value estimated over 200 percent of the loan amount for all-sized firms. For small-sized firms, accessing credit is often dependent on their ability to post collateral with a value of more than 250 percent of the loan amount, which are a substantial obstacle for many firms (Figure 10). Furthermore, real property is the most frequent type of collateral required by lenders, which many SMEs lack.

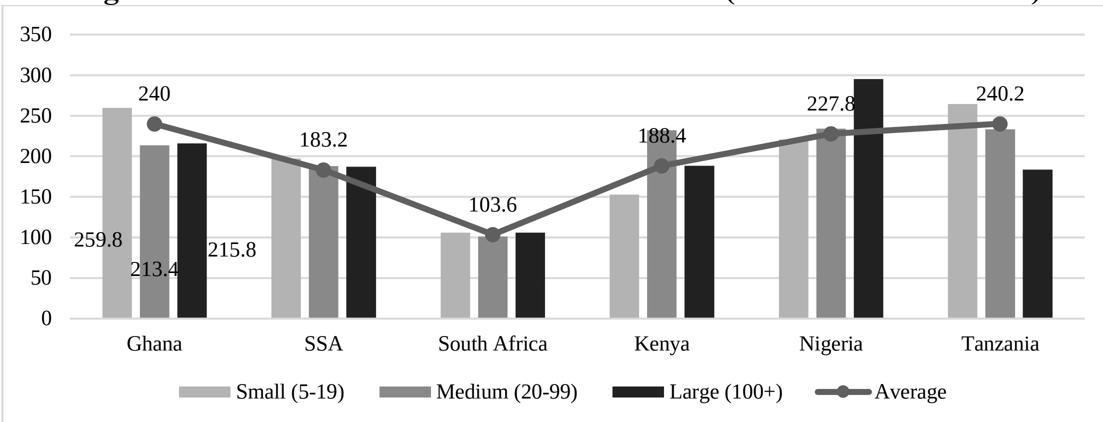
Figure 12. Proportion of Loans Requiring Collateral (%) (per firm size)



Source: WB Enterprise Survey, 2013

[26] Bank of Ghana, Statistical Bulletin, December 2015 (Data as of September 2015).

Figure 13. Value of collateral needed for a loan (% of the loan amount)



Source: WB Enterprise Survey, 2013

Summary Table with key indicators

Table 4. Financial Inclusion – General Indicators

	Kenya	Nigeria	South Africa	Tanzania	Zambia	Ghana	SSA
General Access Indicators							
% Account (% age 15+)	74.7	44.4	70.3	39.8	35.64	40.5	34.2
% Account with formal financial institution (% age 15+)*	55.2	44.4	68.8	19	31.3	34.6	28.9
% Firms with a checking or savings account	92.4	70.4	97.9	73.7	86.1	95	87
# Commercial bank branches per 100,000 adults**	5.8	5.6	10.9	2.5	5	6.1	
# Commercial bank branches per 1,000 km2**	2.6	6.1	3.4	0.8	0.5	4.4	
# ATMs per 100,000 adults**	10.2	16.1	66.2	5.6	9.6	8.2	
# ATMs per 1,000 km2**	4.6	17.5	20.8	1.7	1	5.9	
Access to Credit and other Sources of Financing for Firms***							
% Firms with a loan/ line of credit	35.6	11.4	30.1	16.6	8.8	23.3	23.1
% Firms identifying access to finance as major constraint	17.2	33.1	15.5	43.9	27.4	62.2	40.8
% Firms using banks to finance investments	43.2	6.9	34.8	8.8	12.2	21.2	18.3
% Firms using banks to finance working capital	41.1	16.9	21.1	6.3	9.9	25.3	22.9
Proportion of loans requiring collateral (%)	74	88.8	71.2	96.2	90.6	79.5	80.8
Value of collateral needed for a loan (% of the loan amount)	188.4	227.8	103.6	240.2	236.6	240	183.2

*Sources: *WB Global FINDEX 2014, **IMF Financial Access Survey (FAS) 2014, ***IMF Enterprise Survey: South Africa (2007) Ghana, Kenya, Tanzania (2013), Nigeria (2014)*

C. Market Players and Institutional Potential to Expand Financial Inclusion

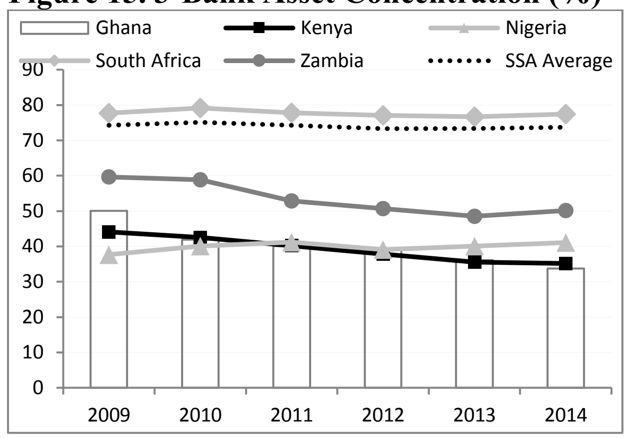
Banking Sector

28. **The banking sector is dominated by foreign owned banks and is moderately concentrated.** Foreign owned banks have the largest market share of the banking sector, majority of which are owned by Pan African groups. The largest 3 banks owned about 30 percent of the total assets of the banking system in 2014, down from about 50 percent in 2009. Meanwhile the five largest banks owned around 40 percent of the total assets of the banking system in July 2015, down from 46 percent in 2013. The decline in market concentration ratios is due to the entrance of a number of foreign banks – particularly Nigerian banks. Compared to peer countries and the region, Ghana's banking system has a relatively low concentration ratio.

Figure 14. Bank market shares by Ownership

	Dec-12		Dec-13		Dec-14	
Banks	**No.**	**Mkt Share (%)**	**No.**	**Mkt Share (%)**	**No.**	**Mkt Share (%)**
Foreign	**14**	**55.0**	**14**	**58.2**	**14**	**53.9**
Europe	3	20.1	3	18.1	3	15.7
Britain	2	16.1	2	14.7	2	12.5
France	1	4.0	1	3.4	1	3.3
Pan Africa	10	34.5	10	39.7	10	37.8
Others	1	0.4	1	0.4	1	0.4
Domestic	**12**	**45.0**	**12**	**41.8**	**13**	**46.1**
State-owned	4	22.8	3	18.5	4	19.0
Private	8	22.2	9	23.3	9	27.2
Total	**26**	**100.0**	**26**	**100.0**	**27**	**100.0**

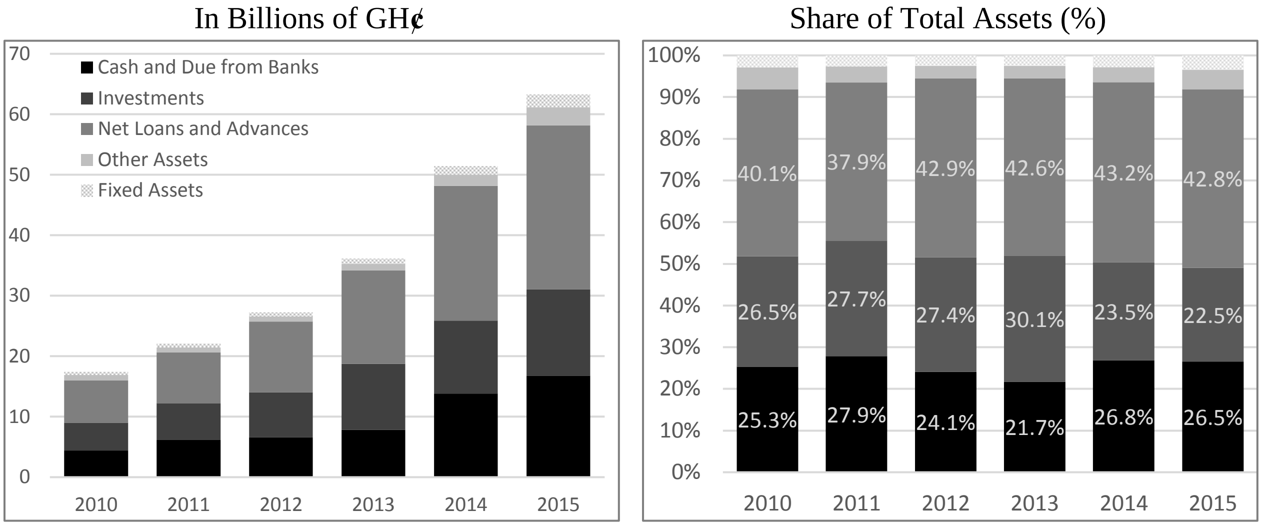
Figure 15. 3-Bank Asset Concentration (%)



Source: Bank of Ghana; World Bank FinStats 2016

29. **Banking assets have grown considerably over the past six years, but the composition has been rather consistent during this period.** Commercial banking assets have more than tripled over the last six years, reaching roughly GH¢63.3 billion (47 percent of GDP) by end-2015. However, heightened macroeconomic vulnerabilities and a challenging economic outlook in 2014 led to a decline in asset growth, 23 percent in 2015 compared to 42 percent in 2014. Despite changes in the volume of assets, the composition of assets has remained mostly stable over this period. Assets are mostly comprised of net loans and advances (43 percent of total assets in 2015), and this share of loans has increased slightly since 2010. Cash and amounts due from banks form the next largest component of assets (27 percent of total assets in 2015) which has increased slightly from 2010, but reached a low of 22 percent in 2013. Investments, which include government securities, comprise the third largest share of total assets at 23 percent and have shrunk since 2010.

Figure 16. Composition of Assets



Source: Bank of Ghana and World Bank Staff Calculations

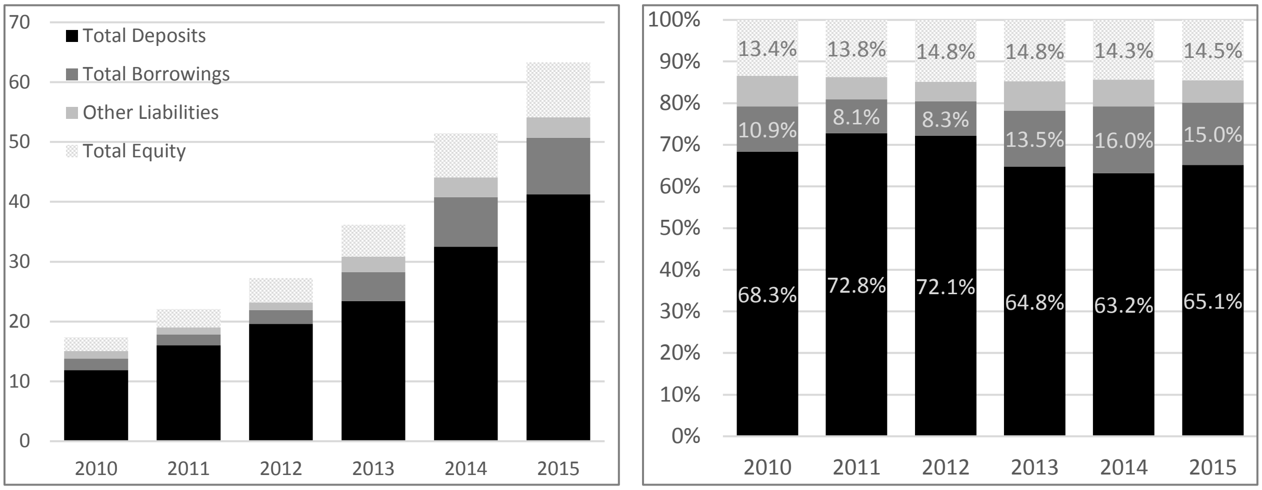
30. Banks are predominantly funded by deposits, which have steadily increased in volume but fallen somewhat as a share of total liabilities and equity. Total deposits comprise more than 65 percent of total liabilities and equity, more than tripling in volume since 2010 to reach approximately GH¢41.2 billion in 2015. Between 2010 and 2015, these deposits as a portion of total liabilities and equity have declined slightly, from 68 percent to 65 percent. However, this share increased to about 73 percent in 2011, the peak during this period, and reduced steadily per annum to reach 63 percent in 2014. Overall, loan growth has outstripped deposit growth leading to an increase in the loan to deposit ratio, from 68 percent in 2010 to 73 percent in 2015.

31. The recent decline in deposit mobilization could be in part attributed to increased competition for these resources from non-bank financial institutions. The formalization of a number of deposit-taking non-bank financial institutions in 2011 led to an increase in competition for deposits between commercial banks and these other financial institutions. A number of these financial institutions have increased deposit mobilization given rapid urbanization and the lack of formal commercial bank branches in many fast-growing towns. This has limited commercial banks' prospects for new customers. Further, anecdotal evidence from interviews with banks indicated that a number of these institutions, notably MFIs, have been fierce competitors for institutional investors deposits, offering deposit rates that are comparable to Treasury bill rates. In addition, the preference for T-bills by non-financial companies and individuals has slowed deposit growth, which has been volatile due to exchange rate swings may suffer going forward given high rates on treasury bills, which are alternative savings vehicles for non-financial companies and individuals.

32. Total bank borrowings and equity have grown rapidly. Total volume of borrowing by banks, including money market borrowing as well as short and long term debt, grew from GH¢1.9 billion in 2010 to GH¢9.5 billion in 2015, raising their share of total liabilities and equity from about 11 percent to 15 percent. For some banks, liquidity challenges during this period led to increased reliance on the interbank market for short-term funds. Meanwhile, total equity doubled between 2010 and 2015, increasing the share of total liabilities and equity to about 15 percent. Much of this increase reflects the 2009-2012 bank recapitalizations as well as higher minimum commercial bank capital requirements for new entrants in 2013.

Figure 17. Composition of Liabilities

In Billions of GH¢ | Share of Total Liabilities and Equity (%)

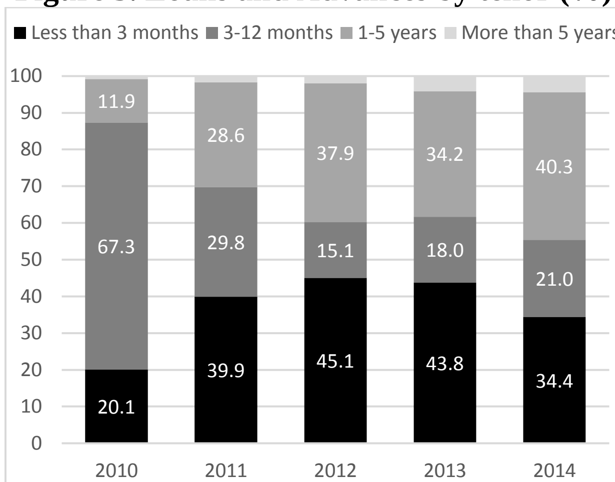


Source: Bank of Ghana and World Bank Staff Calculations

33. The credit portfolio of banks primarily consists of lending to the commerce and finance sector and to private enterprises. According to the most recent BoG's Financial Stability report, the largest portion of total bank credit is extended to the commerce and finance sector, about 27 percent in December 2015 and down from 33 percent in December 2010. Credit to the service sector and utilities (electricity, water, and gas) is the next largest share of credit allocation respectively, and has increased since December 2010. Lending to private enterprises was 77.6 percent of total domestic credit in December 2015, up from 74 percent in December 2014 and about 73 percent in December 2010. These private enterprises are mainly large corporates, with bank exposure to micro and SMEs at a minimum. Credit to state-owned enterprises and government was 7.5 percent in December 2015, down from 9.4 percent in December 2014 and 13.5 percent in December 2010. Lastly, household borrowing has increased steadily from 13.7 percent in 2010 to a peak of 16.8 percent in 2013, and finally declined to 14.8 percent in 2015.

34. While the bulk of lending is short term, less than 1 year, loan tenor has lengthened over the last five years. In 2010, more than 80 percent of loans had a maturity of 12 months or less and less than 12 percent of loans had a maturity of 1 to 5 years. By 2014, only 55 percent of loans had a maturity of 12 months or less while loans with maturity of 1 to 5 years increased to 40 percent. In addition, the number of loans that mature in more than 5 years has also grown since 2010. The lengthening of loan maturity reflects some diversification in credit products as well as some improvements in the maturity mismatch of assets and liabilities.

Figure 3. Loans and Advances by tenor (%)



Source: Bankscope, Bureau van Dijk

35. The banking system has been very profitable relative to peer and regional comparisons mostly due to interest income and rising investment income; however, this may likely change as a result of deterioration in asset quality. Return on assets (ROA) was 4 percent in 2014, higher than country comparators and the regional average for SSA. In addition, the return on equity (ROE) ratio was 28.2 percent in 2014, which is again higher than peer countries and the regional average. Ghana's average ROA and ROE for the banking system has been higher than its peers and the regional average since 2012. The main source of income for banks in Ghana is interest income earned on loans, constituting about 50 percent of total income in September 2015 (up from 45 percent in September 2014). However, investment income has been steadily rising as T-bill rates have increased, reaching 29 percent in September 2015 from 28 percent in September 2014 and 22.1 in September 2010. Given the recent deterioration in asset quality, profitability will likely be start to decline.

Figure 18. Return on Assets

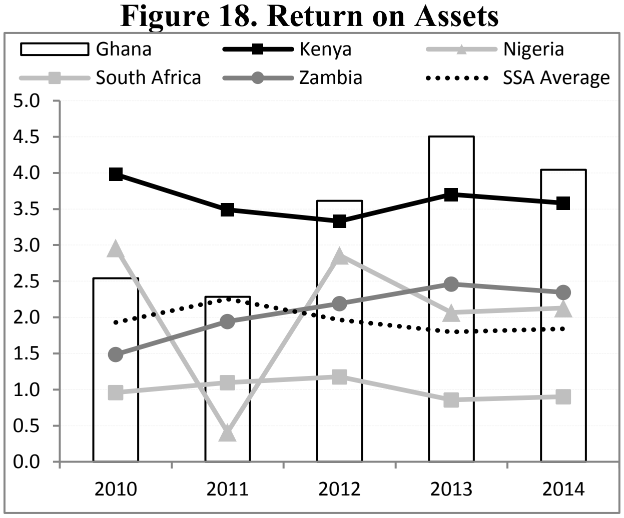
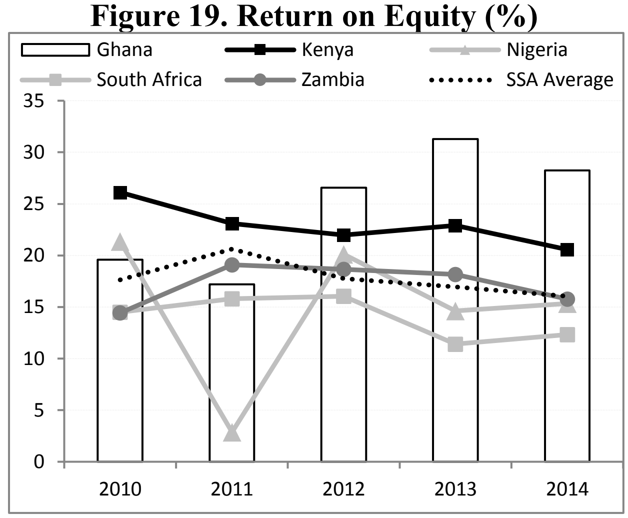


Figure 19. Return on Equity (%)



Source: World Bank FinStats 2016

36. The banking sector efficiency has recently deteriorated and cost ratios remain higher than amongst most peers. Overhead costs to total assets are higher than most country comparators and the regional average in 2014. In addition, the cost to income ratio is higher than amongst all peers as well. However, these cost ratios have been declining over the last 5 years, indicating some

efficiency gains in Ghana's banking sector. In spite of the improvement in these ratios in Ghana, the country and regional comparisons indicate that Ghana's banking system is underperforming with regards to efficiency.

Figure 20. Overhead Costs to Total Assets

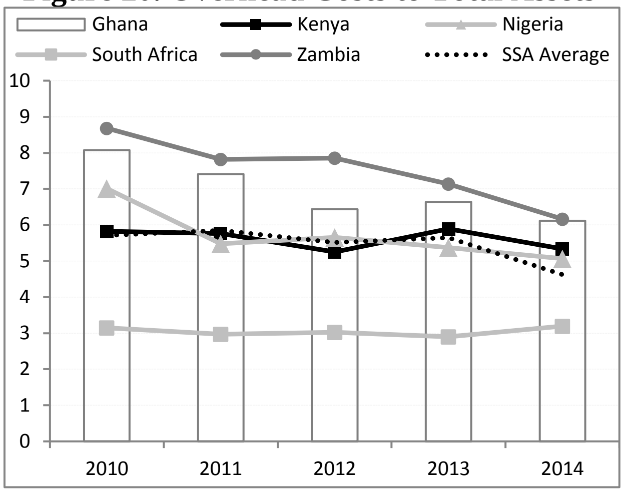
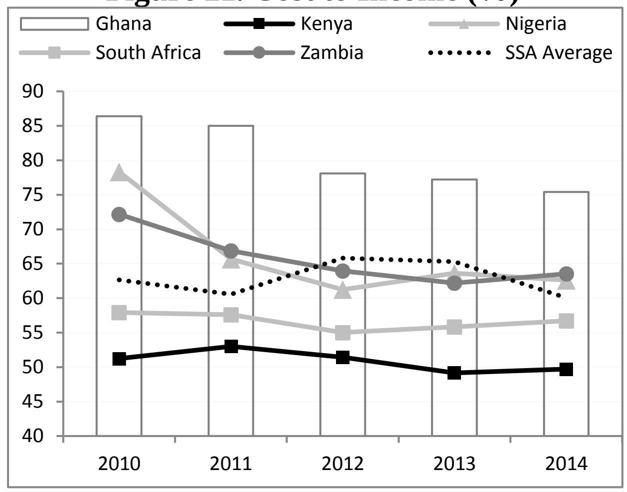


Figure 21. Cost to Income (%)



Source: World Bank FinStats 2016

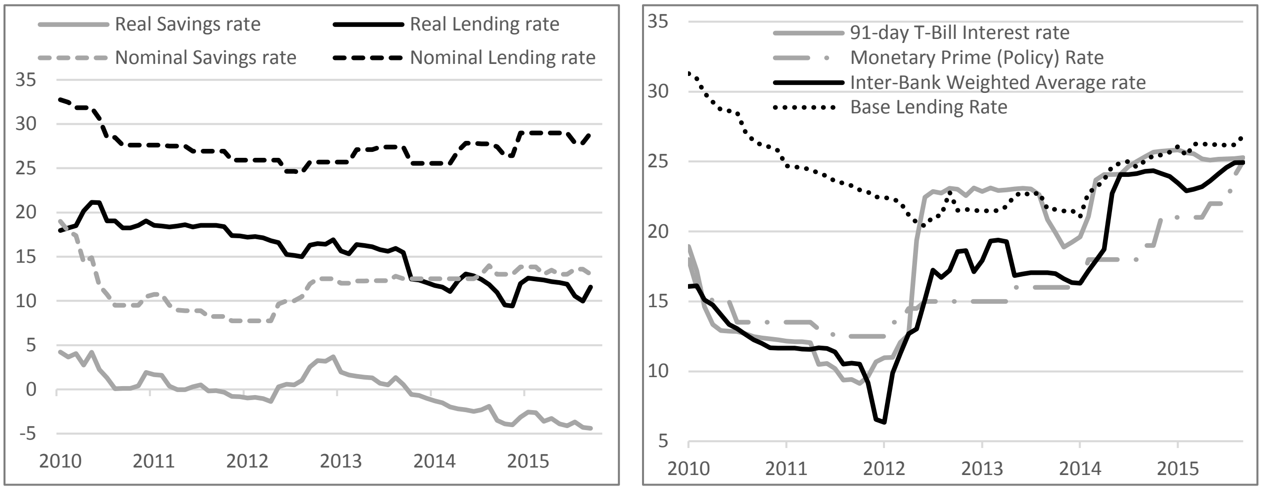
37. Average nominal lending interest rates and spreads are considered high at about 30 percent and 16 percent, respectively. Nominal average lending rates have increased from 27.6 percent in December 2010 to 29 percent in September 2015. As mentioned earlier, nominal lending rates have been reported to be as high as 38 percent. On the other hand, given rising inflation from 2013 onwards, real average lending rates have fallen reaching about 12 percent in September 2015 from 19 percent in December 2010. Average interest rate spreads the difference between the average lending and saving rates[27], have narrowed moderately from 17 percent in December 2010 to 16 percent in September 2015. More accurate estimates of lending rates and spreads are much lower, but are relatively high compared to all peer countries**.** Average effective lending rates[28] were above 14 percent while average effective spreads were just above 10 percent in 2014.

[27] The average savings rate is the average rate on the 3-month Time deposits in commercial banks.

[28] Effective or ex-post interest rates are the actual interest rates received and paid by banks. The effective or ex-post lending interest rate is calculated as the percent of interest income from loans divided by average loans; similarly, effective or ex-post deposit interest rate is calculated as the percent of interest expense divided by average deposits. Effective spread is the difference between the effective lending interest rate and effective deposit interest rat

Figure 23. Average Interest rates (%)

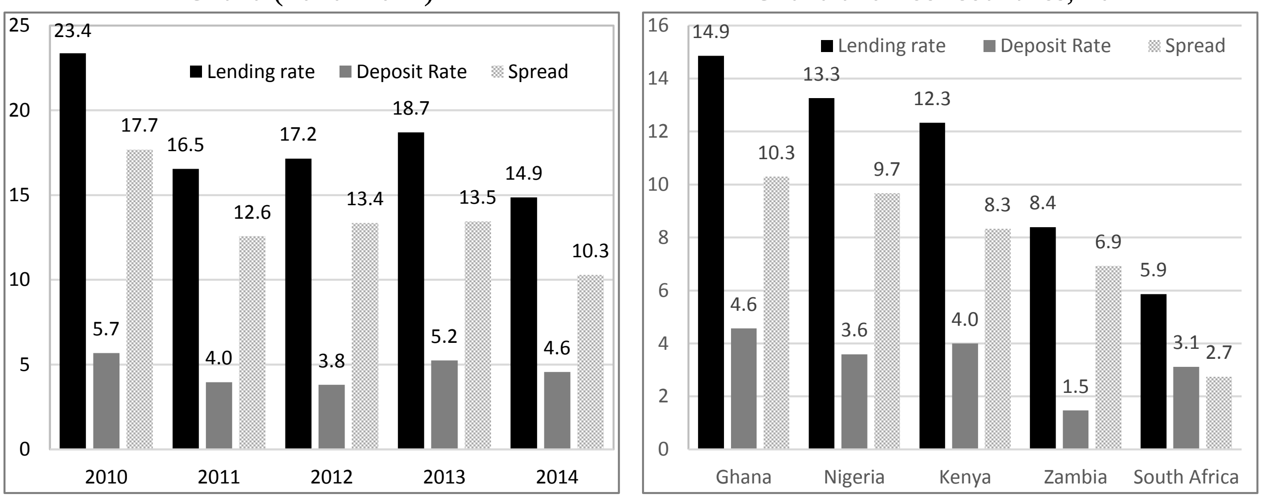
Average Bank Interest Rates | Key Nominal Money Market Rates



Source: Bank of Ghana and World Bank staff calculations

Figure 23. Effective Interest rates and spreads (%)

Ghana (2010 -2014) | Ghana and Peer countries, 2014



Source: Bankscope, Bureau van Dijk

38. High lending rates limit firm access to finance while high interest rate spreads are often a sign of low financial development, and both can have an adverse effect on economic growth. High lending rates increase the cost of capital which reduces overall investment, particularly into substantive medium term and long-term projects with high (social) returns. They also disproportionately reduce access to credit for households and SMEs. At the same time, relatively low deposits rates do not adequately compensate savers resulting in undesirable saving patterns. While high spreads strengthen bank capital and, in turn, increase financial soundness, they are typically reflective of low levels of competitiveness and operational efficiency in the financial sector. Cross-country empirical evidence has found that high spreads are correlated with low financial development, which can have a strong negative impact on economic growth over long-term periods.[29]

[29] Demirgüç-Kunt, Asli, and Ross Levine (2008); "Finance, Financial Sector Policies, and Long Run Growth"; World Bank.

39. Operating costs are the main driver of interest rate spreads in Ghanaian commercial banks, in yet another sign of inefficiency, followed by profit margins. An accounting-based effective interest rate spread decomposition shows that overhead costs are the largest contributor to the interest rate spread of the entire banking,[30] on average 40 percent of the spread. Nonetheless – as a component of the spread – these costs have been dropping since 2010 with the exception of a spike in 2013. This downward trend shows that there were some efficiency gains over the last 5 years. However, as mentioned earlier, operational costs increased in 2015 and could have erased some of these gains. Compared to its peers, the Ghanaian banking sector is still relatively inefficient. Profit margins are the second largest component of the spread, on average about 36 percent and are higher than most of its peers, reaffirming the high profitability trend described earlier. Given their importance to the spread, measures that reduce operating costs should result in relatively sizable reductions in interest rate spreads and, ultimately, lending rates.

40. In addition, reducing the lending rate may require review of the base lending rate, which currently acts as a de-facto floor for commercial bank lending rates. All banks are required to use the base rate formula provided by the Bank of Ghana to determine the minimum interest rates charged on loans. This base rate system was instituted to harmonize the determination of interest rates and to increase transparency in the rates. As the base lending rate is linked to the policy rate, tighter monetary policy is currently driving interest rates higher. Despite the positive impact on price transparency and harmonization, the base rate has essentially become an interest rate floor. This is because banks are also not allowed to lend below the advertised base lending rate in order to prevent them from setting rates that undermine the influence of the policy rate as the benchmark rate of the banking sector interest rate regime. The previous base rate guidelines did not have this stipulation and the central bank had difficulty determining how its policies on interest rates were transmitted to the banking system.

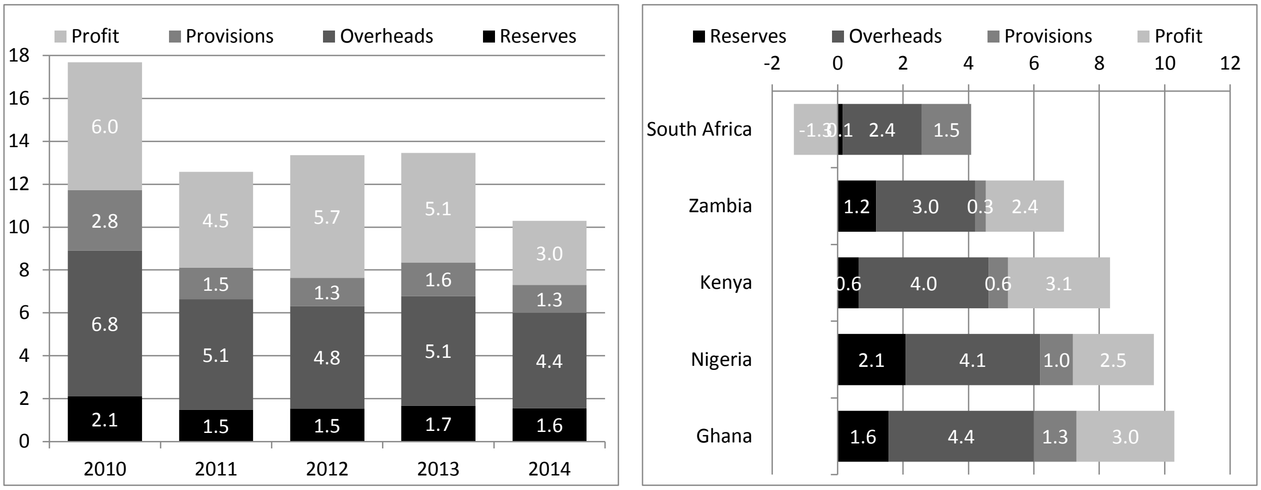
41. Interest rate controls introduce market distortions that can prevent the healthy development of the banking sector. For instance, an interest rate floor reduces the incentive for financial innovation and other improvements in efficiency that can allow banks to lower lending rates below the base rate. In addition, despite restrictions not to lend below the base lending rate, some banks do lend below the base rate for legacy loans as well as new lending to some large corporates.[31] This indicates that some changes are needed to the base rate formula to ensure that it really captures the minimum rate that banks can charge.

[30] This finding is in line with a number of studies on interest rates spreads in African countries given higher costs of doing business and limited supply of skilled labor (Granata et al, 2015).

[31] In some cases, exemptions are provide by the Bank of Ghana for lending rates below the base rate.

Figure 24. Effective Interest rate spread decomposition[32] (%)

Ghana (2010 -2014) | Ghana and Peer countries, 2014



Source: Bankscope, Bureau van Dijk

42. **In addition to unfavorable interest rates, increased crowding out of the private sector further limits access to credit.** Tighter monetary policy and increased government borrowing has led to an increase in Treasury bill and government bond rates. The spread between the base lending rate[33] and the short-term T-bill rate has declined drastically from 14 percent in December 2010 to about 2 percent in September 2015. Notably, there were months during this period when this spread was negative, meaning that it was more attractive to hold government paper than to extend loans. The crowding out of the private sector adversely affects banks' willingness to increase outreach to the underserved and unserved.

Key Recommendations

43. **BoG needs to vigilantly ensure full and timely implementation of the strategy to address bank asset quality in order to maintain financial stability.** BoG has initiated measures of its strategy to resolve raising NPLs, including conducting an updated AQR. However, delays and partial implementation of the strategy, including the failure to ensure timely recapitalization of weak banks or repayment of emergency liquidity support, risks further deterioration in asset quality and could pose serious risks to financial stability. In addition, as asset quality resolution requires a sound financial sector safety net, improvements in legislation governing the authorities' ability to safeguard the financial sector are necessary. These amendments need to be adopted as soon as possible.[34]

44. **Reducing lending rates and spreads in a sustainable and effective manner is a long-term effort that requires overcoming structural challenges, though there are some policy options that can contribute to lower lending rates in the medium term.** High operating costs – the largest component of the spread – are a caused by a limited supply of banking skills but also higher costs of doing business given poor physical infrastructure, unreliable electricity supply, and expensive IT and

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[32] The decomposition calculated using Bankscope data (as more detailed bank by bank data was not made available), which may not include data from all commercial banks in the banking system of each country.

[33] The base lending rate is the minimum interest rates charged by banks on loans. The formulation of this interest rate is governed by guidelines issued by the Bank of Ghana.

[34] See IMF Country Report No. 16/321 for more details on the asset quality strategy and legislation to strengthen financial soundness.

telecommunication services. Addressing these challenges requires long-term investment and reforms to improve the business climate in Ghana. Nonetheless, there are some policy measures available that can help to lower rates in the medium term, including:

- ***Review the base rate formula provided by the Bank of Ghana to determine the minimum interest rates charged on loans to avoid a de facto floor for commercial bank lending rates.*** Given that banks are not allowed to lend below the advertised base lending rate, the base rate is effectively an interest rate floor.
- ***Promoting banking sector competition, initially through regular disclosure of standardized interest rates and fees.*** While bank competition can be promoted through a variety of channels, including increasing the size and role of non-bank financial sector institutions, a number of these measures are long term and are already underway in Ghana. A short to medium term measure that can spur commercial bank competition can be to require banks to disclose fees and rates in a standardized way. This measure introduces more price transparency that reduces information asymmetries and enables consumers to shop around for the most appropriate credit products. Although banks in Ghana are required to publish their rates in their bank branches, this information is not presented in a standardized format, which renders this exercise ineffective. The Bank of Ghana has drafted, but not yet adopted, Regulation on Disclosure and Transparency Rules for Credit Products and Services, which once adopted and enforced should help to standardize interest rates published by banks. Further, the publication of these rates by the central bank tends to apply downward pressure on average rates (or outlier rates). The Bank of Ghana has, in the past, published commercial bank interest rates as well as ATM fees. However, more recently, these efforts have been irregular, which can also make this exercise ineffective.
- ***Promote mobile banking in line with existing regulations as means to increase bank efficiency and delivery of banking services.*** For the most part, banks have relied on traditional "brick-and-mortar" branches expand throughout the country. However, branch expansion entails high operational costs, given even higher labor and administrative costs particularly outside the major cities. Increased customer outreach efforts should be geared towards the introduction and scaling up of innovative products and delivery platforms – such as paperless mobile based deposit and loan accounts, mobile branches, telephone banking, agency banking, etc. Despite the release of *Guidelines for Branchless Banking*[35] more than 7 years ago, only two banks (Fidelity and Ecobank) are actively engaged in developing mobile banking services; meanwhile agent-banking efforts remain limited. New *Guidelines for E-Money Issuers*[36] and *Agent Guidelines*[37] released in June 2015 now allow mobile network operators (MNOs) to apply for a license from the Bank of Ghana and set up financial subsidiaries that can compete directly with banks. This should provide stronger incentive for banks to develop mobile banking options. The Bank of Ghana should proceed expeditiously to establish the supervisory mechanism to support these new regulations, including monitoring and consumer protection issues, to ensure that MNOs can compete with banks in a responsible way.

[35] Available at: https://www.bog.gov.gh/privatecontent/Monetary_Policy/2008/August/regulatory%20framework%20for%20branchless%20banking.pdf

[36] Available at: https://www.bog.gov.gh/privatecontent/Banking/E-MONEY%20GUIDELINES-29-06-2015-UPDATED5.pdf

[37] Available at: https://www.bog.gov.gh/privatecontent/Banking/AGENT%20GUIDELINES%20UPDATED3.pdf

- ***Reduce crowding out of private sector by addressing fiscal dominance.*** As discussed earlier, elevated Treasury bill and government bond rates have led to an increase in domestic financing of government debt, which affects banks' lending decisions. Currently, Ghana has an IMF Extended Credit Facility arrangement with a program in place to restore debt sustainability and macroeconomic stability, including fiscal consolidation. Efforts to accelerate reforms under this program, including measures to support further fiscal adjustment and to implement the medium-term debt management strategy, are welcome. In addition, this program supports measures that should to help fight inflationary pressures and to address under-provisioning of NPLs as well as shore up bank capital given asset quality deterioration. These efforts should address some of the underlying factors (i.e. inflation and increasing credit risks) that are increasing interest rates at present.

Microfinance Sector[38]

45. The Microfinance sector grew rapidly in Ghana during the 2000s through existing financial institutions, raising the percentage of the population that is banked and financially included from 1.3 million in 2001 to around 8 million at the end of 2013. . Although not all such institutions were regulated by the Bank of Ghana (BoG), capacity building, oversight and monitoring support from microfinance associations and donor-supported programs helped ensure stable growth. During the late 2000s, however, proliferation of new types of unregulated microfinance service providers disrupted the system, with increasing incidents of fraud, insolvency, and loss of savings by low-income households. In 2011, the Bank of Ghana (BoG) issued Guidelines for Microfinance Institutions (MFIs) to bring all types under a consistent regulatory framework.

46. The current MFI framework takes a tiered approach, consistent with emerging international trends. BoG issued Guidelines for Microfinance Institutions (MFIs) in 2011 as a response to the proliferation of businesses taking savings and making loans that were registered as companies but not licensed as financial institutions. In addition to RCBs and S&Ls, which were already licensed, the new regulations cover <u>all</u> categories of microfinance providers, including new categories of "Microfinance Companies" (MFCs) and "Money Lenders" (both companies and individuals), as well as the pre-existing credit unions, FNGOs, Susu collectors, and others. The Guidelines specify business form, capital, permissible activities and prudential or reporting and set forth four tiers of MFIs (the first tier being those already subjected to BoG licensing and supervision):

- **Tier 1: Deposit-taking MFIs regulated under the Banking Act** and already being licensed and supervised by BoG: RCBs and S&Ls.
- **Tier 2: Deposit-taking MFIs regulated under the Non-Bank Financial Institutions Act**:
  - ✓ Microfinance Companies (MFCs); supervised directly by BoG;
  - ✓ Credit Unions: currently regulated by Ghana Cooperative Credit Unions Association and to be regulated separately under a new Legislative Instrument that envisages supervision through an independent Board under BoG.[39]

[38] The section below provides an overview of microfinance sector, and complements a separate and more detailed note that has been disseminated to the authorities and which includes prioritized recommendations to address the key challenges.

[39] Although credit unions have in principle been subject to BoG regulation since the first Non-Bank Financial Institutions (NBFI) Act in 1993, in practice BoG has exercised "regulatory forbearance" and left the supervision to the Ghana

- **Tier 3**: **Non-Deposit-taking MFIs: Incorporated Money Lenders and FNGOs** – i.e., those MFIs not mobilizing deposits from the public (though in practice, they do take customer funds as collateral for lending or by offering interest on "investments," much like Finance Houses); in principle supervised by BoG; in practice, associations are being asked to take the lead in monitoring and reporting on their subsectors.
- **Tier 4**: **Others, specifically, individual *Susu* Collectors** (who only take daily savings) **and Money Lenders** (who only make loans). These do not intermediate funds and are not supervised directly by BoG, but are expected to join and report to their respective associations, which "shall collect and collate statistics on the operations of their members and furnish this to BoG periodically as may be determined.

47. The new regulations faced difficult challenges of implementation, largely because they were imposed on a very large number of existing institutions without adequate prior capacity building of regulators, MFIs, and their associations. The regulatory net was cast wide to minimize "regulatory arbitrage" by allowing some types of MFIs to escape regulation, and requirements were initially set low in order to bring as many operators into the system as possible. It took BoG some two years to build up the staff capacity to handle the influx of over 700 applications and then to sort out compliance of provisionally-licensed MFIs with the full licensing requirements. It has taken even longer to develop and implement reporting templates suited to the operations and capacities of MFIs, many of which lacked adequate management information systems (MIS) and accounting skills. Finally, low capitalization impedes the performance of many RCBs, S&Ls and MFCs and their ability to comply with steadily increasing minimum capital requirements. While BoG raises minimum capital in part to limit entry, provide an adequate cushion against insolvency, and consolidate and stabilize the sector, many RCBs and other MFIs would also be better able to meet demands from the clients with greater capitalization. Finally, a substantial gap remains between the prudential and reporting requirements and the ability of MFIs to comply thus making the BoG's supervisory mandate even more challenging.

48. Collapse of a substantial number of microfinance operators was inevitable as part of the transition to a more robust, professionalized microfinance industry. BoG has revoked provisional licenses of non-compliant MFIs, publicized those operating illegally without licenses, and raised minimum capital requirements (to deter unqualified new entrants, as well as to encourage existing MFIs to strengthen their capital base). BoG has substantially clarified which MFIs are operating legally and properly. However, public perceptions remain adversely affected by persistent closures and loss of savings and by poor understanding of the licensing process, its intended benefits, and what it can and cannot do in terms of protecting deposits (or 'investments') in high-risk instruments promising high returns. At the same time, BoG is limited as to the extent it can enforce regulations without going to court. BoG is planning to embark on a public awareness effort in the short term, though the only sustainable solution will rest in its ability to reform the sector and strengthen regulatory and enforcement capacity.

49. In terms of size, total assets of non-banks represented about 15 percent of total financial institutions' assets[40] in 2014, declining slightly since 2013, and mostly comprise loans and advances. Total assets of NBFIs, RCBs, and MFIs totaled GH¢5,844 million, GH¢2,099 million, and

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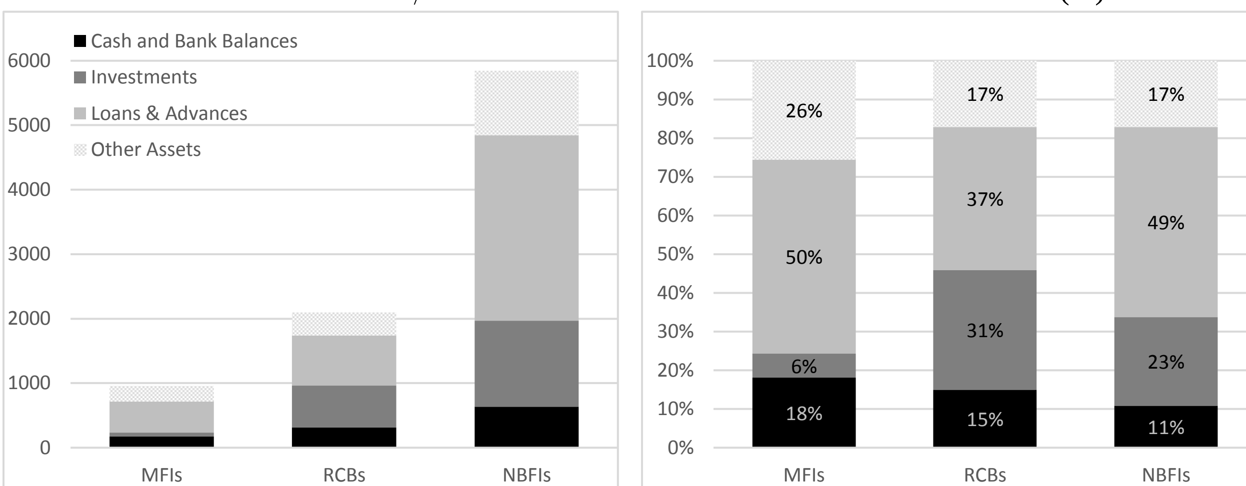
Cooperative Credit Unions Association (CUA), through its audit service, in collaboration with the Department of Cooperatives, which is the registering authority.

[40] Total financial institutions includes Banks, NBFIs, RCBs, and MFIs that are supervised by the Bank of Ghana.

GH¢959 million in 2014, respectively. Although the volume of non-bank total assets grew in 2014, the share of these assets to total financial institutional assets decreased for NBFIs (from 10.5 percent in 2013 to 9.7 percent in 2014) and RCBs (from 4.3 percent in 2013 to 3.5 percent in 2014). In the meantime, MFI total assets more than tripled between 2013 and 2014, the share of these assets to total financial institutional assets increased from 0.7 percent in 2013 to 1.6 percent in 2014. Similar to banks, total assets of non-banks are mostly comprised of loans and advances. The share of loans and advances to total assets is much larger than banks in MFIs and NBFIs at about 50 percent. This share is much lower in RCBs at about 37 percent, with investments making up a larger portion of total RCB assets (31 percent). The higher shares of investments in RCBs and NBFIs indicates few lending opportunities for institutions that are not focused on microfinance.

Figure 25. Composition of MFI, RCB and NBFI Assets, 2014

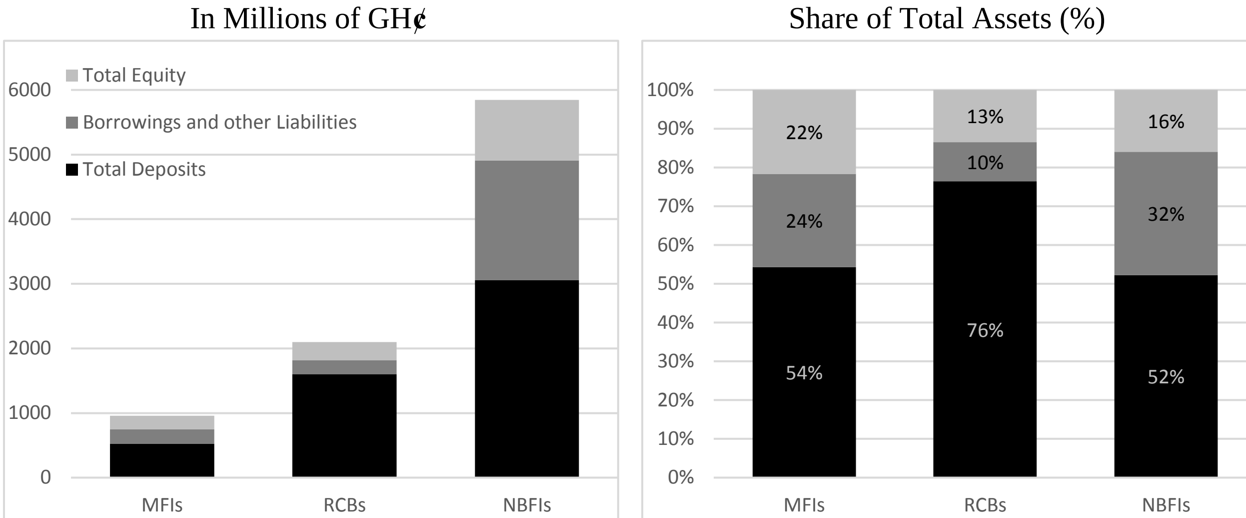
In Millions of GH¢ | Share of Total Assets (%)



Source: Bank of Ghana and World Bank Staff Calculations

50. Similar to banks, non-banks are primarily funded by deposits, with some variation depending on the type of non-bank. Total deposits accounted for 52 percent of total NBFI liabilities and equity in 2014, with little change from 2013 but a lower share than banks. Borrowings and other liabilities represent a larger share of total liabilities and equity at 32 percent compared to banks. Total RCB deposits comprised 76 percent of total liabilities and equity in 2014, slightly higher than 2013 and a much larger portion than banks. Lastly, total deposits in MFIs represented 54 percent of total liabilities and equity in 2014, a large increase from 39 percent in 2013. MFIs were mainly funded by borrowings and other liabilities in 2013 (43 percent in 2013 compared to 24 percent in 2014), as deposit taking MFIs grew in size.

Figure 26. Composition of MFI, RCB and NBFI Liabilities and Equity, 2014



Source: Bank of Ghana and World Bank Staff Calculations

Decomposition of Interest Rate Spreads for Credit Unions[41]

51. **Average effective lending rates and spreads[42] in credit unions are much higher than those of banks; however, anecdotal evidence shows that credit union lending rates are lower than rates on comparable loans from commercial banks.** Using financial statement data provided by Credit Union Association (CUA) on 10 credit unions, calculated average effective lending rates for credit unions are much higher than those in banks, at over 20 percent over the last 5 years. These lending rates have declined slightly between 2010 and 2015, with some volatility during the period. Interestingly, these rates are lower than the CUA advised rate of about 30 percent. In addition, anecdotal evidence from interviews with banks indicates that comparable retail credit products in commercial banks would cost about 30 percent. Credit unions on average provide cheaper lending products to individuals that would otherwise have limited access to finance from commercial banks. Also, the cost of funding, estimated using the total cost of funds including interest expense on savings, fixed deposits and lines of credit, is also higher than bank deposit rates and the cost of funds has been increasing since 2011. Consequently, spreads have declined from over 20 percent in 2010 to 18 percent in 2014.

[41] This exercise focused on credit unions only as this was the only detailed MFI sub-sector data that has been made available to the World Bank team (by Credit Unions Association).

[42] Effective or ex-post interest rates are the actual interest rates received and paid by credit unions. The effective or ex-post lending interest rate is calculated as the percent of total interest income from loans divided by average total net loans; similarly, effective or ex-post deposit interest rate is calculated as the total cost of funds divided by average total funding (total savings plus external loans). Effective spread is the difference between the effective lending interest rate and effective cost of funds.

Figure 1. Effective Interest rates and spreads – Credit Unions (%)

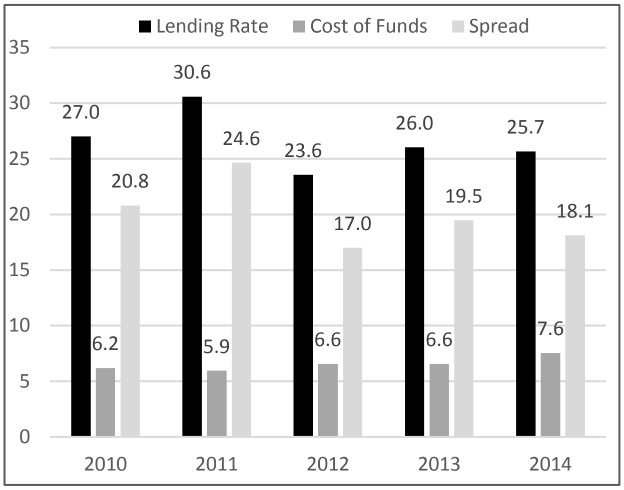
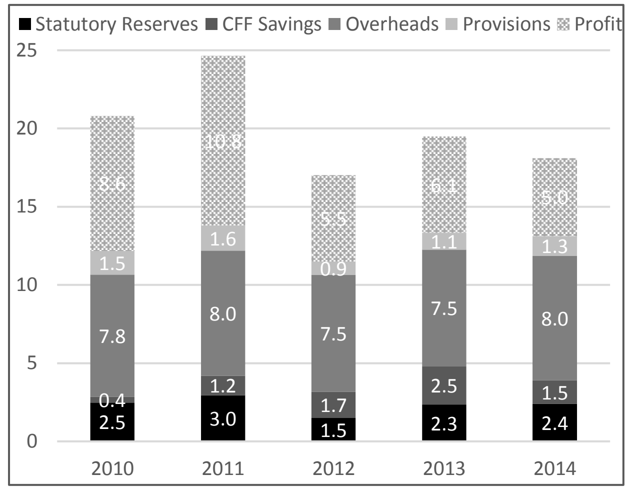


Figure 2. Effective Interest rate spread decomposition – Credit Unions (%)



Source: CUA and staff calculations

52. **Similar to banks, operating costs are the main driver of interest rate spreads in credit unions, followed by profit margins.** A decomposition of the effective interest rate spread shows that overhead costs are the largest contributor to the interest rate spread of credit unions, on average about 40 percent of the spread. Nonetheless – as a component of the spread – these costs have increased slightly since 2010, reflecting a moderate deterioration in efficiency indicators in credit unions. Profit margins are the second largest component of the spread, on average about 35 percent. Further, similar to banks, these margins have decreased since 2010. Statutory reserves and CFF savings are mandatory prudential funds to safeguard financial stability of the sector and all registered credit funds contribute to them at least annually based on CUA bylaws. As such, these contributions represent de-facto regulatory costs that credit unions incur and pass on to borrowers. Given the size of these credit unions, a reduction in the cost components of the spread, notably overhead costs, could be achieved by scaling up these entities, as economies of scale would trigger some efficiency gains. Indeed, the largest credit union in Ghana, the University of Ghana employees' credit union, has the lowest overheads cost component of all the credit unions analyzed.

Key Recommendations

53. **A regulatory strategy for further regulation of the MFI sector is needed to provide vision for the sector in the medium term and enable BOG to effectively enforce its regulatory mandate.** The issues to be addressed include reforming the sector, improving capitalization, enhancing supervision and compliance with regulations, resolution, and restructuring the support institutions. Such a strategy could offer vision for development of the sector and enforcement of regulations in light of the current challenges. Broader and more detailed recommendations are presented in a separate note on microfinance sector in Ghana.

Leasing Sector

Overview of the leasing market

54. **Following a substantial decline after 2007 and coinciding with global financial crisis, the market has experienced recovery since 2010 and nearly doubled in size by 2015.** The total number

of registered leases decreased from a high of 1,381 in 2007 to 730 in 2009. As a result, the value of leases booked also decreased from US$130 million in 2008 to US$58.4 million in 2009[43]. However, in 2010, the volume of leasing transactions increased sharply to 1,832 while the overall value of leases booked reached US$128 million. The total size of the leasing market at end 2015 was estimated at over US$250 million.

55. Although Ghana's leasing market has experienced substantial aggregate growth over the last few years, the market composition has changed with the continuous decline in the performance of non-bank leasing sector and rising dominance of bank led leasing operations. Independent leasing companies (i.e. those that are not affiliated with commercial banks) were the first to enter the Ghanaian leasing market in 1991, controlling over 90 percent of the market share until 2004. Today they have less than 20 percent of market share. At present, there are five independent leasing companies: Leasafric Ghana Ltd, Ghana Leasing Company, SDC Finance & Leasing, Dalex Finance & Leasing, and IFS Finance & Leasing. The reasons for their decline are multiple and include funding constraints, increased competition from and/or acquisition by banks with the closure of banking leasing subsidiaries and their integration into regular bank business. **In addition to recent overall sector expansion, there are further opportunities for growth and investment in the leasing sector.** The Ghanaian economy has been growing consistently over the past few years and this growth, driven in part by infrastructure development, presents opportunities for investment in the leasing sector. Additionally, the potential size of the leasing market is estimated at over US$600 million, which is more than double the current market value. Furthermore, the rapid development in various economic sectors and the changing needs of the telecommunication, agriculture and oil and gas sectors present substantial opportunities for investment in leasing.

Overview of legal and regulatory framework

56. The regulatory framework for leasing in Ghana is enshrined in the Finance Lease Act of 1993, known as PNDCL 331, which is outdated and requires modernization. Amongst the deficiencies is that while the law defines lease finance agreement, it does not define a lease. The law also does not distinguish a finance lease from other types of leases, though some of the provisions of the law by implication apply to other forms of leases. These types of ambiguities are subject to interpretation and promote uncertainty. The importance of a sound leasing law and its effect on the appetite of lessors to offer the product cannot be underestimated. A good legal framework combined with other relevant policies (e.g. IFRS IAS 17 standard for lessees and lessors) are fundamental requirements to create the foundation of a sustainable leasing sector and with it another reliable financing option for the SME sector and individuals.

57. In addition, Banking and Non-Bank Financial Institutions Laws also include provisions that affected leasing sector development. Specifically, since the adoption of the Banking Act 2004 (Act 673) which allowed banks to engage in financial leasing, the leasing industry in Ghana has gone through substantial changes. Banks have since become the dominant players controlling almost 80 percent of the total leasing market share. The Non-Bank Financial Institutions (NBFI) Act, 2008 (Act 774) established a prudential requirement for leasing companies and paved the way for all finance houses (i.e. type of NBFI) to join the leasing industry. In 2009, as part of the operationalization of the new NBFI Act, the Bank of Ghana sent notices requiring leasing companies to increase their Minimum Stated Capital from GHS1 million to GHS10 million by December 2013.

[43] IFC Leasing Survey 2008.

58. These legislative changes have increased the competition for independent leasing companies which focus solely on leasing. The number of institutions permitted to engage in leasing has increased from five registered independent leasing companies to over 80 finance institutions now offering leasing; including all 32 licensed banks, 23 finance houses, 31 savings and loans, and five independent leasing companies. At the same time, non-bank leasing companies have been continuously losing market share to banks, which has led to a considerable decline in their activity with only two independent leasing companies remaining truly active in leasing business (i.e. Leasafric Ghana Limited and Ghana Leasing Company).

59. There are two types of licenses issued by BoG that govern operations of the independent leasing companies. The existing leasing companies established before 2004 (i.e. Leasafric Ghana Limited and Ghana Leasing Company) were issued licenses to conduct only leasing operations, while other companies established after 2004 were issued licenses for both finance and leasing business. Most of the companies established after 2004 have subsequently opted to focus their business strategy on finance rather than leasing because of funding challenges and to benefit from the higher margins on short-term lending, compared to that of the pure leasing business which relies on medium to longer-term tenors. It is important to note that one of the most commonly highlighted challenges currently facing non-bank leasing companies is the difficulty in raising funds, even for regular operational needs. The primary source of funding for leasing businesses are local commercial banks and since leasing companies borrow on a short-term basis it makes it virtually impossible for them to on-lend for the medium to longer term.

60. The majority of companies offering leasing are therefore registered as either finance houses or finance and leasing companies. Since the new NBFI Act allows finance houses to engage in financing activities including leasing, there is no clear incentive to license a company primarily to engage in leasing. Moreover, some finance houses are no longer actively engaging in the leasing business because of previously mentioned lack of medium- to long- term funding.

61. The interpretation of certain provisions of the Internal Revenue Act 2000 (Act 592) are also undermining development of leasing sector. Specifically, this Act states that a person would be granted capital allowances for each year of the assessment with respect to depreciable assets owned and used in carrying of a business during a basis period ending within a year. In leasing, persons who can prove use of asset cannot prove ownership, so neither the lessee nor lessor qualify for this benefit.

Market Development Implications

62. A bank-dominated leasing market could have potential implications for the future of the leasing industry in Ghana. Simply stated, individuals who are ineligible for traditional banking services, may also be unserved by leasing offered by banks, as banks are not specifically focusing on catering to leasing customers with few resources dedicated to developing capacity in this segment. Banks put limited emphasis on deploying leasing concepts, as demonstrated by ways they structure and administer leases, as well as in the amount of information and level of detail provided in the agreements. Further, there is no specific focus on driving or developing leasing as a specialized core product different from a loan or an overdraft, which may adversely affect the development of the leasing market. The banks use the same sales teams, credit policies, systems and evaluation procedures for all products including leases. The terms and concepts used in lease agreements are also the same as used on regular loan agreements. This approach has taxation and accounting implications for both the bank and customer. Moreover, because banks are not differentiating leases from loans,

they are not developing the specific capacity, skills and knowledge required for structuring and administering leases. This has significantly affected the experience of professionals in the leasing industry, and as a consequence, the quality of leases structured by banks. Finally, the concept of leasing as an asset-based financing tool with the asset serving as the sole collateral for the lease is often not fully understood by loan officers and credit risk managers. As a result, many individuals who could otherwise grow their businesses with the assistance of a lease are unable to receive the necessary lease financing.

Key Recommendations

63. BoG and MoF should initiate review and modernization of the regulatory and supervisory framework for leasing, including Finance Lease Act, Banking Act, NBFI Act, and Internal Revenue Act to ensure a harmonized framework that promotes level playing field and market development. The Finance Lease Act of 1993 should define a lease and distinguish a finance lease from other types of leases, in addition to undergoing overall modernization and clarifying ambiguities. It should also promote uniformity by removing the current dual regulatory system introduced with provisions of Banking and NBFI Laws which allowed banks to undertake financial leasing as part of their regular operations or creating unleveled playing field. This dual framework creates advantages or disadvantage based the type of law under which the company operates (e.g. independent leasing company or bank lessor). The interpretation of tax laws, including the Internal Revenue Act, should be clarified to facilitate capital allowances benefit on qualified depreciable assets owned in leasing, in line with international experience. Finally, the reform of the legal framework should be complemented with guidelines and requirements for adequate and effective supervision of leasing activity (e.g. less stringent prudential requirements should apply to non-deposit taking companies compared to those that mobilize savings).

D. Financial Infrastructure

Credit Reporting

Overview of Legal and Regulatory Framework

64. The credit reporting system in Ghana is directly governed by the Credit Reporting Act of 2007 (Act 726) and the Guidelines for Credit Reference Bureau License issued by Bank of Ghana as per authority vested under Section 1 of the Act. The act provides the framework for credit bureaus and establishes the conditions for credit reporting in the country. The Act 726 contains specific dispositions for licensing of credit bureaus, including duties and responsibilities and duties of the credit bureaus, data providers and credit report recipients. It also establishes data protection provisions including handling of complaints. The Bank of Ghana is the supervisory and regulatory authority for credit bureaus.

65. The above-mentioned regulatory framework is complemented with other Acts and regulations that are relevant to credit sector. These include: i) The Bank of Ghana Act, 2002; ii) Banking Act, 2004; iii) Banking Amendment Act, 2007; iv) Borrowers and Lenders Act, 2008; v) Microfinance Institutions Guidelines, 2011; vi) Non-Bank Financial Institutions Act, 2008; and vii) the Mortgages Act 1972. Amongst other, these acts and regulations contain provisions on how to conduct lending operations, assess borrowers' creditworthiness, as well as other practices that are complementary to the dispositions in the Credit Reporting Act and need to be evaluated together when assessing the framework for credit reporting in Ghana. As an example, the Borrowers and Lenders

Act provides a framework for standards of disclosure of information by borrowers and lenders, promotes consistent credit practices and establishes the conditions and use of the collateral registry which is also highly relevant for access to credit (for further details see section on Secured Transactions).

66. The acts and regulations mentioned above have been in place for several years, and their implementation and practical use demonstrates that there is room for improvement and modernization. The Credit Reporting Supervisor at the Bank of Ghana started working on a set of amendments to the Credit Reporting Act in order to resolve the immediate challenges in the system, particularly those regarding consent and adding other data sources. While this is a good initiative, a broader review of all relevant laws and regulations affecting credit reporting in coordination with all relevant stakeholders should be considered to further enhance the system. Once the amendments and adjusted regulations are in place, it will be very important for the regulator to issue directives and notices to communicate such dispositions to all stakeholders, and establish appropriate follow up procedures to ensure compliance. Some other weaknesses relate to privacy issues and consumer protection which are core principles for the industry. The following assessment is done in line with the General Principles for Credit Reporting[44].

Context: General Principles for Credit Reporting

The overall legal and regulatory framework for credit reporting should be clear, predictable, non-discriminatory, proportionate and supportive of data subject/consumer rights. The legal and regulatory framework should include effective judicial or extrajudicial dispute resolution mechanisms.

Laws, regulations and the more specific rules derived from them should be clear on all key issues, such as the types of data that can be and cannot be collected, what type of users can access the credit reporting databases and under what conditions, or the rules to deal with non-compliant behaviors, among others.

Predictability requires that rules be prospective, publicly available, clear, non-contradictory and relatively stable. While striving to be clear and precise with regard to key concepts, functions, or responsibilities, laws and regulation should be written to accommodate evolving trends related to credit reporting without requiring frequent amendments.

Non-discriminatory refers to the legal and regulatory framework being equally applicable to the various participants in credit reporting insofar as they are providing equivalent services. Data supplying and data access should be established in a fair manner, responding to impartial rules regardless of the nature of the participants. In principle, all active users of data for lending purposes should be allowed to access credit reporting databases. Additionally, obligations on data quality, security measures and consumer rights should be equally applicable to all credit reporting service providers, data providers and users.

Proportionality of laws and regulations respond to three main characteristics: a) adequacy; b) necessity; and c) non-excessiveness. In credit reporting, these three aspects should be reflected in the legal and regulatory framework supporting the collection of credit and related data from businesses and individuals, and the use of such data.

The legal framework for credit reporting should be designed to balance the interests of the consumers/data subjects on one hand, and the objective of promoting credit information flows and innovation in the credit reporting system. At the minimum the rules regarding the protection of data subjects/consumers should include: (i) the right to object to their information being collected for certain

[44] Available at: http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/06/26/000386194_20120626044403/Rendered/PDF/701930ESW0P1180ting0pub010028011web.pdf

purposes and/or used for certain purposes, (ii) the right to be informed on the conditions of collection, processing and distribution of data held about them, (iii) the right to access data held about them periodically at little or no cost, and (iv) the right to challenge accuracy of information about them.

One of the biggest challenges of the legal framework is that its provisions be enforceable. On the one hand, laws and regulations should be practical and effective to ensure a high degree of compliance. In other words, rules that cannot be enforced are not likely to be effective. On the other hand, authorities should be capable of enforcing legal provisions administratively, which requires a combination of sufficient powers and adequate human and financial resources. In the case of credit reporting activities, one additional difficulty is that cross-cutting issues might fall under the jurisdiction of several government agencies, which then leads to the need for effective cooperation between regulators.

Dissemination of the legal and regulatory framework is essential in order for credit reporting systems' participants to be fully aware of their rights and obligations and shape their conduct accordingly. Apart from the laws and key regulations, the specific rules and internal norms that do not compromise intellectual property and trade secrets should also be available to the general public as pertinent. Proactive efforts should also be undertaken to disseminate how certain rules and norms have been applied or enforced in varying circumstances.

67. A review of the following two sensitive issues within the Act, (consent and other data sources) revealed opportunities for improvement, though there are two approaches to ensure that the credit reporting remains functional in the interim until a more comprehensive reform can be implemented:

- **Article 26 (8) of the Act 726 allows the consumer to revoke their previously given consent.** This defeats the purpose of credit reporting, which is to inform credit providers of any potential risks: if the consumer can revoke his/her consent, the risk increases. However, to counteract this, the Act 726 also allows the credit providers to report some data without consent such as the details of the loans that are 90 days past due, as well as the dishonored checks which reduces the negative impact of the "right to revoke". A good practice is that once the consent is granted, it should remain in force as long as the credit is outstanding.
- **In relation to "Other data sources", there is a provision in the law that allows for other data sources to be reported:** The Minister can issue a directive to incorporate other data sources without amending the Act, although providing clarity to the Act is the recommended option in the long run.

68. Considering the above conclusions, BoG should be able to provide guidelines to the stakeholders (credit providers and data providers) under the current Act to: i) grow the credit information database by issuing the appropriate directives to report other data sources; and ii) to report defaulters even if they revoke their consent.

Overview of institutional framework for credit reporting

69. Reporting other data sources from retailers, utilities and other non-financial institutions, including MFIs will be fundamental to increase access to credit. On the basis of above review the Act allows for other data sources to be reported by issuing a directive by the regulator. Additionally, credit scores are still not available because large amounts of accurate data are required to produce predictive scores. The coverage of the bureaus is still low at 16.3%[45]. Once the credit information

[45] Doing Business Indicators on Getting Credit show that the coverage of the credit bureaus has increased steadily in Ghana from 10.4 percent in 2014 to 14.1 percent in 2015 and 16.3 percent in 2016. However, it remains low for a country that has a fairly robust credit information model in place.

database has sufficient and relevant information, the credit bureaus will be able to develop the scoring models. Credit reporting allows for standardization of risk analysis, increases productivity, and allows for risk based pricing, benefiting the consumers.

Context: General Principles for Credit Reporting

The National Credit Reporting System describes the broader institutional framework for credit reporting in each economy. This framework includes the following: (1) the public credit registry, if one exists; (2) private credit reporting firms, if they exist, including those run by chambers of commerce, bank associations, and any other organized database on borrower performance available in the economy; (3) the legal framework for credit reporting; (4) the legal framework for privacy, as it relates to credit reporting activities; (5) the regulatory framework for credit reporting, including the institutional capacity in government to enforce laws and regulations; (6) the characteristics of other pertinent borrower data available in the economy, such as data from court records, utility payments, employment status; (7) the use of credit data in the economy by financial intermediaries and others, for example, the use of credit scoring or use of credit data in creating digital signatures; and (8) the cultural context for credit reporting, including, for example, the society's view on privacy and the importance accorded to reputation collateral.

70. There are three credit bureaus operating in Ghana that were licensed following the adoption of the Act in 2007. These include XDS Data, Hudson Price and Dunn & Bradstreet. Although competition is usually desired, it has significantly slowed down expansion of credit reporting in the case of Ghana. The main reason is that each credit bureau designed its own format and policies to collect and report data, and the lenders (banks and other entities including MFIs) had difficulty meeting the different, and as a result, costly requirements. It is particularly hard for MFIs to meet these technical requirements, and therefore most of their portfolio is not reported to the credit bureaus, even though they hold the greatest percentage of credit issued to consumers and small businesses in Ghana. The use of a standard format and similar validation rules by all three bureaus has been proposed and is explained further below.

71. After several years of formally supervised credit reporting, there are some key challenges regarding the quality of the data, the processes of gathering the information and the validation of such data. Additionally, the entities that report to the bureaus are not consistent in their submission, reporting different data to different bureaus. As a result of this deficiency in data quality, the number of queries against the credit bureaus' database by credit providers is also low; thus, the impact expected on the expansion of credit has not yet occurred. Another obstacle is absence of data from other relevant sources such as MFIs, telecoms and utilities. The credit bureaus and other industry stakeholders have subsequently formed a Working Group to resolve these issues and several meetings have been held with some agreements reached, though not implemented yet. Amongst the proposals was the use of a standard data format and a set of validation rules which could have a substantial positive impact on credit reporting in Ghana.

72. Most recently, the Bank of Ghana decided to establish a credit registry housed at the BoG to collect standardized information based on which the bureaus would prepare reports for credit providers. Even though the concept may be intuitive, actual implementation is challenging. For example, this is a very expensive approach raising the issues of funding and sustainability for BoG. Further, it required highly technical and trained staff to service this unit, which is currently understaffed and still requires capacity building to perform its core regulatory and supervisory role. Incorporating this new and highly complicated process may be counterproductive and may slow down

progress for the credit industry. In this regard, a careful analysis and strict planning should be considered if the credit registry is to be successfully implemented.

Key recommendations

73. BoG should issue a directive on the standard data format and validation rules to be implemented uniformly by all active data providers to report to credit bureaus. The most urgent matter affecting the development of the credit reporting system in Ghana is deficiency in data quality lack of uniformity in reporting this data, and the lack of a unique identity document (ID) adds an additional burden to the process of matching the information from the data providers. BoG has decided to develop its own database registry to resolve the data quality problem, but this is a long term solution that does not address immediate challenges. In the meantime, it is recommended to adopt the standard data format and a set of validation rules as agreed by the Working Group which could be deployed through the BoG directive with immediate impact on enhancing the system. A strict supervision process to ensure stakeholder compliance will also help speed up the process.

74. BoG should issue a directive to report other data sources (e.g. utilities, telecoms) and to report defaulters even if they revoke their consent. This action addresses BoG concerns about consumers revoking their consent and the need to incorporate other sources of data in the credit information database to increase the reach of credit to a larger portion of the population and smaller businesses. This is a transitional solution, until the regulatory framework is reformed.

75. BoG should allocate sufficient budget for the operationalization of the Credit Registry, along with restructuring of the department responsible for data collection to enable it to assume this new role. BoG has recently decided to install a database to collect data from credit providers to distribute to the Credit Bureaus and this way resolve the current challenge of standard data format in the system. If BoG is going to assume the new responsibilities for data collection in addition to its fundamental supervisory role, the department in charge will have to be properly staffed with trained technical people and sufficient funds allocated to procure necessary hardware and software and to keep the operation sustainable over time. The organizational structure should consider at a minimum the following divisions: operations, administration, finance and a specialized technical department. The BoG should also assign a physical space with proper security, access to communication channels for transmitting and receiving data non-stop. In order to provide for a sustainable service, funds also must be available to cover for the new systems maintenance going forward. Once the department at the BoG has been properly structured and staffed, technical assistance will be required to develop and implement an action plan to operationalize the department.

76. BoG should review the Credit Reporting Act along with other relevant legislations on provision of credit. The credit reporting system has been operating in Ghana for several years with a legislation passed in 2007, with three private bureaus servicing the industry, and several dozens of credit providers utilizing the credit information services under the supervision of the Bank of Ghana. During this time, enough experience has been gathered as to determine what is working well and what could be enhanced, including diagnostics and evaluations made by the World Bank Group. Hence, it is recommended to conduct a review of the legal framework by an expert task force including relevant stakeholders with practical experience in this area (i.e. government, private bureaus, credit and data providers, representatives of non-financial stakeholders such as retailers and telecoms; representatives of consumer associations, etc.). The objective would be to propose specific amendments to the relevant laws and regulations to resolve the specific challenges and deficiencies already identified in

the credit reporting system along with any other amendments to that may be necessary to ensure alignment with international good practices and fully functional credit reporting system.

Secured Transactions

Overview of Legal and Regulatory Framework

77. A major pillar of an effective secured transactions regime is the presence of a regulatory framework that delineates rights, responsibilities and duties of parties to credit transactions in and out of bankruptcy. Such a framework will facilitate the use of movable property as collateral for business and consumer loans. Related benefits - especially to micro, small, and medium enterprises - may include better access to credit, higher credit amount, and longer tenors.

78. The regulatory framework for secured transactions in Ghana is driven by a bouquet of legislations covering possessory and non-possessory security rights. This include: Customary law (possessory pledge), 1952 Chattels Transfer Ordinance (chattel security), 1960 Contracts Act (assignment of rights), 1962 Incorporated Private Partnerships Act (charge), 1963 Companies Act (charge), 1974 Hire-Purchase Decree (retention of title), 1993 Finance Lease Act (retention of title) and 2008 Borrowers & Lenders Act (charge).

79. These are complemented with other Acts and regulations that are relevant to secured transactions in Ghana. These include: i) The Bank of Ghana Act, 2002; ii) Banking Act, 2004; iii) Banking Amendment Act, 2007; iv) Microfinance Institutions Guidelines, 2011; vi) Non-Bank Financial Institutions Act, 2008. The Land Title Registration Act 1986 (Act 152) provides for the registration of mortgages and charges over land. Regulatory authority over secured transactions is split between the Bank of Ghana and the Registrar of Companies.

80. In early 2000s, Ghana embarked upon a reform of its credit system to ensure the development of a modern credit market properly supported by appropriate infrastructure. This culminated in the enactment of the Credit Reporting Act, Act No. 726 of 2006 and the Borrowers and Lenders Act, Act 773 of 2008. The former provides for the licensing and operation of the credit bureaus whilst the latter (Act 773) provides the legal framework for credit, to improve standards of disclosure of information by borrowers and lenders, to prohibit certain credit practices, to promote a consistent enforcement framework related to credit, and to provide for related matters. In 2012, the Bank of Ghana issued the Rules for effective implementation of the Borrowers and Lenders Act, 2008 (Act 773).

Context: Features of an Effective Secure Transactions Regime

An overarching aim of a modern secured transactions framework therefore is the harmonization of the disparate legislations governing secured transactions within a jurisdiction. Generally, the laws and rules governing secured transactions are found in multiplicity of sources as the subject matter covers various areas of property law, commercial law, company law and insolvency.

An efficient and effective regulatory framework for secured transactions must balance the need for transparency with that of predictability and certainty. Overall, the regulatory framework will serve two objectives: (i) allow the creation of security rights in a simple and efficient manner; and (ii) enhance certainty and transparency of security rights by providing for a notice registration as the main form of establishing third party effectiveness and determining priority among competing claimants.

A legal framework governing secured transactions is often a 'patchwork' of legal instruments distinguishing between types of borrowers, assets and transactions. There is also the issue of multiplicity of devices and instruments that are overlapping and confusing. The objective of achieving simplicity and efficiency will require the adoption of a functional approach to secured transactions and entail the enactment of one statute for the creation of a single security right applicable to all types of tangible and intangible assets. The Statute will repeal all pre-existing laws/provisions that limit the taking of security either by types of assets or by parties involved.

The requirement for certainty and transparency is satisfied once the regulatory framework allows a security right to be created over generally described assets, present and future, and provides for the establishment of a notice-based registry. Adoption of a broad description of the collateral to provide freedom and flexibility of the parties to structure the transactions as they deem fit is germane. It also requires the establishment of accessible, notice based registration system that serves to publicize the registration, amendment and cancellation of the secured transaction and establishes the priorities rights. There is also the requirement for the consent of the debtor to the registration as well as a duty on the part of the secured creditor to cancel registration once the accounts are settled.

A modern secured transactions regulatory framework must provide for an efficient security enforcement regime covering both judicial and extra-judicial enforcement mechanisms. One of the biggest challenges secured creditors face is the ability to enforce the security interest against the debtor in a timely and cost effective manner in the event of a default. Also of concern is the potential for arbitrariness by a secured creditor in the course of realizing the security and disposing of the encumbered assets which should be mitigated by requiring the secured creditor to proceed in a commercially reasonable manner.

A robust regulatory framework is not by itself sufficient to assure a modern and effective secured transactions system. There is a need to complement this framework with an appropriate reform of the Insolvency regime and the commercial disputes adjudication process to ensure overall effectiveness and synergy.

Reform of a secured transactions regime entails the adoption of new concepts and practices by stakeholders. For example, judges and lawyers schooled in the traditional secured transactions regime of multiple devices and asset types may oppose/not embrace the reforms. Capacity building for this category of stakeholders that will be responsible for interpreting and enforcing the provisions of the Statute as well as Financial institutions that will operationalize the regulatory framework is critical. This should be augmented with a robust social awareness/education program for all relevant stakeholders including the general public.

81. The Borrowers and Lenders Act (Act 773) provides a regulatory framework for transactions secured with both movable and immovable property and the establishment of a Collateral Registry operated by the Bank of Ghana for the registration of charges and collateral. A major deficiency of the Borrowers and Lenders Act is that it does not address other security rights under extant legislations highlighted above, thereby failing a key consideration for modernizing the secured transactions system: harmonization of the disparate legislations governing secured transactions within a jurisdiction. The attendant problems and confusion with multiplicity of laws and security devices still subsists.

82. Another deficiency in Act 773 relates to its narrow (restrictive) rather than broad scope. Modern Secured Transactions legislations are meant to define scope simply and broadly to allow for certainty and flexibility. However, Act 773's applicability is only to regulated institutions so it excludes the rest of lenders from its scope.

83. Act 773 does not address many fundamental functions of the Collateral Registry established under the Act such as indexing of records and amendments of registration. The Act requires the presentation of a *certified copy of a charge instead of summary on standardized form* for registration (S.25(1) and stipulates that what are registerable are 'charges' and 'collateral' *(S.22-23)* rather than *notice of security interests.* It further retains the requirement for double registration for companies which is concurrent with the requirements of the Companies Act (S. 25(2)).

84. Notwithstanding the above, the regulatory framework for secured transactions created by Act 773 and the ancillary Collateral Registry have been in place since 2010 and have improved access to finance to MSMEs. The issuance of the Rules in 2012 dealt with a few of the issues relating to the functioning of the Registry, but the amendment of the substantive legislation (Act 773) is required to deal with highlighted fundamental defects and provide the country with a modern secured transactions regime. The review will also cover reform of the Insolvency Law to align it with international best practice.

Overview of Institutional Framework for Secured Transactions

85. The overarching goal of reforming the secured transactions regime in a country is to increase access to finance by MSMEs through the development of regulatory and institutional frameworks that will enable MSMEs use movable assets (property) as collateral to secure loans. Studies have confirmed that whilst movable assets make up to 72 percent of the capital stock of MSMEs, immovable property account for over 76 percent of the collateral sought and obtained by banks and financial institutions to secure a loan to MSMEs. This creates a collateral gap that inhibits access to finance and financial inclusion.

Context: Establishing Collateral Registry

Generally, banks and financial institutions are weary of taking and using movable assets as security in the absence of a robust regulatory and institutional regime that protects their creditor's rights. Most movable assets are mobile and highly susceptible to conduct or treatment that is potentially deleterious to the interest of a creditor. Hence, the need for a regulatory framework that will provide necessary protection for the creditor.

An effective registration mechanism for interests in movable property is essential. Even though the regulatory framework will provide adequate laws on secured transactions to allow borrowers and lenders to recognize movable assets as collateral, it is not enough to support financing secured with such assets. There is a need for a robust institutional framework which is the registration mechanism together with the capacity building and awareness/education program to have an efficient modern secured transactions regime in place.

The requirement of a registration mechanism for interests in movable property is satisfied by the development and operation of a centralized electronic registry (Collateral Registry). The Collateral Registry serves to publicize and perfect the security interest and establish the priority regime of such interests against third parties. A fragmented collateral registration system does not enable a prospective creditor a full view of the state of the movable property being offered as security for a loan. The Collateral Registry must be easily accessible to the stakeholders and the general public. Registration could also be done at any time and the fees paid, if at all, should be nominal irrespective of the value of the transaction. The registration process should also be simple with little human interference, thus the bias for modern collateral registries to be electronic and on-line.

Components of the Collateral Registry system include the development of a specialized software application installed and deployed via a strong communications and security infrastructure. The software application should be able to facilitate quick registration with appropriate date and time stamp applied to each transaction and create an electronic register of security interests. It should also enable searches to be carried out easily using either the unique identifier of the debtor, serial number of the movable property or the registration number of the registered security interest (generated by the software application). The Registry should also be able to maintain archives of registrations and facilitate production of appropriate statistical reports, manage client accounts and include a financial management module. The Registrar and officials of the Collateral Registry perform purely administrative functions with respect to the electronic register.

Lack of knowledge of the rudiments of asset based lending, a fragmented legal regime and local capacity are some of the reasons why banks and other financial institutions are hesitant in lending against movable property. Such knowledge is critical for crafting and implementing policies on asset monitoring, classification and risk management. It will also enable the development of specialized movable financing products like accounts receivable, factoring and warehouse receipt financing etc. that align with the peculiarities of the various types of assets. Development and delivery of specialized training program on a sustainable basis is therefore imperative.

Promoting access to finance to MSMEs using movable property must be situated in the overall context of the overall regulatory/supervisory regime for the banking sector. Where the monetary policies crowd out the private sector in the allocation of credit (for example high interest rates on treasuries) and the supervisory framework for prudential lending is not cognizant of the specialized nature of lending against movables, the effect of the wholesale adoption of a reformed secured transactions regime may be constrained. A review of the monetary policies and prudential lending guidelines should therefore be pursued as part of the reform.

86. Following the enactment of Act 773, the Bank of Ghana in 2009 commenced the operation of the Collateral Registry established by the Act. It was a semi-automated registry that required the submission of physical security documents for registration. There were also various gaps in the regulatory framework relating to the functioning of the Registry.

87. In 2009, the Bank of Ghana embarked on a Collateral Registry Redesign Project with the support of the World Bank Group. The project comprised three pillars; a) redesign/development of a fully automated electronic Collateral Registry, b) amendment of the Law and Regulations and, c) training and capacity building programs for relevant stakeholders. Some of the key project highlights include the drafting and issuance of the Rules for effective implementation of the Borrowers and Lenders Act, 2008 in 2012 and launching of a modern electronic on-line Registry system in 2010. Amendments to the Borrowers and Lenders Act No 773 were also drafted in November 2011. Trainings were carried out for relevant stakeholders including judges, financial institutions, legal community, and government officials. This was supported with a communications campaign aimed at sensitizing and creating public awareness.

88. The absence of a national unique identification system poses a challenge for the efficient operation of the established Collateral Registry. A unique ID system would provide certainty for both searches when searching the registry and lenders when identifying borrowers in registrations. The ongoing efforts of the Government of Ghana in this regard need to be encouraged and ramped up to ensure broad coverage.

89. Other institutional weaknesses include problems with enforcement of security rights (judicially and extra-judicially) in part as a result of limited capacity of the legal community (lawyers, judges, bailiffs and police) to interpret and enforce the law. The non-alignment of the regulatory framework for loan classification and bad debt provisioning with the peculiar demands of lending against movable property coupled with absence of a sustained capacity development programs for the financial institutions have chilling effects on the reform process.

90. However, since its launch in January 2010, **the Collateral Registry has ensured tracking and analysis of US$12 billion in financing using movable assets as collateral through more than 75,000 loans (originated both before and after the Registry was launched).** Eighty percent of these loans were granted to individuals/micro entrepreneurs and 15 percent to SMEs. Around 30,000 registrations valued at US$100 million were made by women entrepreneurs.

91. Nevertheless, it is still important to address some of the regulatory gaps and operational challenges to reap additional benefits of financial reform. The financial sector reforms of the past decade have helped Ghana to emerge as the first country in sub-Sahara Africa to establish a collateral registry. The development of the credit market and supportive financial infrastructure has facilitated access to finance for MSMEs, financial inclusion and prosperity. To institutionalize the reforms and enhance the secured transaction regime, gaps in the regulation and operational challenges need to be tackled.

Key Recommendations

92. The Borrowers and Lenders Act should be overhauled to create a unified, certain, transparent and efficient regime for secured transactions. The Act suffers from a number of deficiencies that the BoG has already identified. Many gaps in this legislation have been filled in the 2012 Rules, which are however an inappropriate instrument to include substantive legal provisions. The enactment of the Amendments should be accompanied by a review of the Rules to ensure their consistency with the Amendments as well as to provide support for the planned improvements to the registry system.

93. The judicial enforcement framework that operates outside secured transactions laws of this kind should be reviewed to ensure that affected parties have access to efficient remedies as soon as the Amendments take effect. The success of the project depends on all three elements, namely the Amendments to the Borrowers and Lenders Act, the improvements to the Collateral Registry and the availability of efficient remedies to be in place at the same time.

94. Bank of Ghana should review Prudential Lending Guidelines for Loan Classification and provisioning for defaulted debt. Such a review will clearly detail how facilities collateralized with movable asset should be treated, as well as applicable haircuts and provisioning for bad loans. Banks and financial institutions will also review their respective risk acceptance criteria to enable lending to MSMEs secured by movable assets.

95. The Collateral Registry system needs to be upgraded in line with best practice. The Ghana Collateral Registry has been successfully operating since March 2010 (fully web-based since June 2012); however, there are a number of enhancements that should be implemented to improve the registry system. Some features have been identified by users as not functioning properly or requiring a more streamlined workflow such us the creation of an on-line payment gateway, the improvement

of the search functionality to provide for more accurate results and the statistics reporting capability for both internal and external users.

96. It is important to ensure continuous awareness and facilitate training and capacity building related to movables financing. Movables financing remains in its infancy in Ghana, the capacity of the lenders (both traditional lending institutions and NBFIs) should be enhanced to encourage the use of movables assets as collateral as a mechanism to reduce risk and diversify their portfolios. Therefore, specialized movables financing training sessions targeted at different market segments should be conducted as well as a series of trainings to government officials, legal community and judiciary officials after Amendments have been adopted. In addition, the development of a financial literacy and public education/communications campaign together with related products to ensure its sustainability and economies of scale is also necessary to raise awareness within the general public.

Payments System

Overview of legal and regulatory framework for payment system

97. The payment system is a vital component of any economy and a conduit for supporting economic activity and growth. It comprises complex and integrated networks of institutions and people involved in the execution trading and fund transfers to settle the trades across the economy. Their smooth functioning is therefore essential to the overall efficiency and stability of the market systems of which they are part. Accessibility, convenience and affordability are key attributes to providing safe and efficient financial services and products to the population at large. However, these must be supported by a strong regulatory framework that enables interoperability and creates a conducive environment for various service providers.

98. Ghana has made significant progress in the reform of the payment system since embarking on the collaborative payment systems modernization process in the late 1990s. Notable achievements in this regard include the enactment of various laws[46] including the Payment Systems Act in 2003 aimed at providing a legal basis to the payment systems; introduction of financial market infrastructures including the real time gross settlement system (GIS); the automated clearing house; the national switch; cheque code line clearing which significantly reduced the cheque clearing period throughout the country; central securities depository; and the increase in the number of banks offering payment services to customers.

99. The statutes that are relevant to payment systems and other financial market infrastructures include a number of acts. These include: Payment Systems Act 2003-Act 662, the Bank of Ghana Act 2002- Act 612, The Banking Act 2007 (as amended)-Act 738, the Electronic Transactions Act 2008, the Bills of Exchange Act 1961-Act 51, the Central Securities Depository Act, the Securities Industry Law, Foreign Exchange Act and the Anti-Money Laundering Act 2008.

100. The Bank of Ghana has the statutory responsibility to promote a sound financial system through traditional prudential supervision of financial institutions and the oversight of payment systems. The statutory responsibilities are stipulated in the Bank of Ghana Act 2002 which empowers the BoG to "promote, regulate and supervise payment and settlement systems." The BoG's mandate

[46] Electronic Transactions Act 2008; Central securities Depository Act.

in payment systems oversight function is further strengthened in the Payment Systems Act (PSA) which authorizes the Bank to establish, operate as well as designate payment systems for its supervision, in the interest of the public.

101. The Payment Systems Act (PSA) 2003 along with the Electronic Payments Act and the BoG Act, as amended, was particularly issued to strengthen the payment systems legal framework which is critical for the overall risk management and soundness of any payment system. Key considerations in establishing a legal basis for a sound payment systems should include the legal mandate of the central bank in carrying out the payment systems oversight function, together with relevant provisions of the banking and central bank law; b) laws and regulations of broad applicability that address issues such as insolvency, contractual relations between parties, enforceability of security interests; c) laws and regulations that have specific applicability to payment systems (such as legislation on electronic signatures and records, validation of netting, settlement finality), enforceability of security interests and d) rules, standards and procedures agreed to by the participants of a payment system**.**

102. The PSA has no explicit provisions for the oversight of payment services and providers in general. While the National Payment Systems Oversight Framework (NPS Oversight Framework) stipulates the oversight scope of the BoG as covering systemically important payment systems, securities settlement systems, providers of critical services,[47] the BoG is yet to fully carry out the oversight activities in line with international good practices and principles. For this reason, there appears to be no enforcement of some of the customer related provisions outlined in the E-Money Guidelines and the PSA.

103. The Electronic Transactions Act gives legal certainty and confidence in the use of electronic transactions. The Act also contains provisions for digital signatures, admissibility of electronic evidence in courts and the electronic retention of electronic records for a minimum period of 6 years. The High Court Civil Procedure Rules of 2004 which were established in accordance with Article 157 of the 1992 Constitution deal with the legal basis for commercial transactions in general.

104. Using the mandate drawn from the various statutes, the BoG has issued rules, guidelines[48], directives and other determinations to regulate the operations of the various payment streams. Most of these pertain to banks as the main providers of payment services using cheques, direct debits, direct credits and direct transfers via the GIS system used by the BoG for the final settlement of interbank obligations. The Guidelines for the operation of ATM and POS platforms require providers to meet international standards as well as interconnectivity and interoperability with existing domestic platforms as well as international networks. The ATM/POS guidelines do not cover MNOs and other non-bank service providers.

105. The National Payment System Oversight Framework lays out the areas of oversight covered by the BoG in executing the oversight function. These include systemically important payment systems such as GIS, the cheque clearing system and the securities settlement system. The

[47] These could be network service providers, security printers, payment instruments including cheques, electronic cards, mobile money transfers and ACH direct credit and debits.

[48] These include the Cheque Code line Clearing Guidelines, The ACH Direct Debits and Direct Credits Guidelines; Ghana Bankers Clearing House Rules; GH Link Operational Guidelines; Guidelines for E-money Issuers; Agent Guidelines; Guidelines for the operation of platforms for ATMs and POS in Ghana.

framework also extends over network service providers, payment instruments /systems e.g. cheques, electronic cards, mobile money transfers, ACH direct credit and debits, remittance service providers. Through designation in terms of the NPS Law, the BoG can also bring any system under its oversight. The framework also provides for the establishment of the Payment System Policy Board (PSPB) to be responsible for crafting the national payment system policy that will promote the safety and efficiency of the national payment system in Ghana.

106. The BoG has yet to commence the full oversight activities in line with the objectives outlined in its oversight framework. In order to execute this function in accordance with requirements of standards governing financial market infrastructure, BOG should consider devising a program for building capacity in both numbers and skills, with the assistance of external experts**.**

107. The payment services provided by non-banks such as MNOs are regulated under the Guidelines for E-money Issuers. The latter replaced the previous Guidelines for Branchless Banking which restricted the e-money service provision to banks licensed by the BoG only. The new Guidelines are progressive in that they: a) allow for the licensing of both banks and non-banks in the e-money business and without prescribing the model to be followed; and b) provide for a risk based approach in the categorization of accounts into minimum, medium and enhanced KYC. The regulations came into effect in July 2015; both banks and non-banks issuing e-money have been given up to July 2015 to regularize their operations through direct authorization and licensing by the BoG.

108. All reporting requirements by e-money issuers are clearly stipulated in Section 24 of the Guidelines together with the applicable sanction and penalties for non-compliance. However, there appears to be ambiguity and lack of clarity on Section 10, sub-paragraphs 5 and 6 of the Guidelines dealing with the payment of interest on the pooled e-money float. For the avoidance of doubt, the BoG needs to bring all parties together to dialogue on this aspect and reach a common understanding.

109. A comprehensive review of the existing legal and regulatory framework to further strengthen its adequacy in addressing all material aspects in line with the standards governing financial market infrastructures as revised in 2012[49] in response to the global financial crisis is considered necessary. Such a review would help in identifying any gaps, updating regulation/guidelines as well as strengthening the BoG's mandate in guiding and overseeing the development of payment systems in the country. Both the PSA and the BoG Act make no explicit reference to the "oversight" of payment systems despite this being a core function of central banks worldwide. The BoG oversight powers therefore need to be better articulated in in the law, in particular to include on-site investigation, rules on provision of payment services and issuance and management of payment instruments by non-financial institutions. This should only set up high-level principles, with flexibility being given to BoG to adopt secondary measures to regulate individual instruments, services or other issues as it might see fit and in accordance with developments in the market and policy decisions.

[49] Principles for Financial Market Infrastructures http://www.bis.org/cpmi/publ/d101a.pdf

Overview of institutional framework for payments system

110. The financial sector in Ghana has also seen more players in the form of banks and other non-bank service providers such as the four mobile network operators (MNOs) Airtel, Tigo, MTN and Vodafone) that are providing mobile financial services. The modernization momentum is still ongoing as evidenced by the various initiatives and efforts directed at the retail payments systems as Ghana continues to respond to the ever changing global trends in the area of payment systems.

111. Payments system oversight function rests with BoG, but is limited both in terms of resources and technical expertise, and by the current organizational structure within the BoG. The setting up of the National Payment System Office (NPSO), which is housed in the Banking Department, is a positive development. However, it needs to be complemented by the recognition of the payment systems oversight function at the right level within the organizational structure, supported by adequate staffing resources in both numbers and skills. In fact, at present the NPSO does not enjoy an adequate level of independence nor the same hierarchical level of other supervision departments, like BSD or NSD. There is also a risk of potential conflicts of interests between the Banking Department's dual role as an operator and overseer of the NPS.

112. The Ghana Interbank Settlement (GIS) System is the real time gross settlement system for Ghana and constitutes the main system for the settlement of interbank activities in the financial system. The system which is owned and operated by the BoG allows financial institutions to transfer funds through accounts held with the BoG and provides facilities for the final settlement, in central bank money, of obligations arising from interbank activities and retail payment streams (e.g. card based payment obligations). The system has 32 direct participants comprising the 30 licensed commercial banks, the BoG and a pension fund (non-bank).

113. The Ghana Interbank Payment and Settlement Systems (GhIPSS) Limited a wholly owned subsidiary of the BoG is responsible for running retail payments infrastructure for both banks and NBFIs. The systems managed by the GhIPPS include e-Zwich-the national switch and biometric smart card payment system which switches and settles automated payment instructions; the cheque code line clearing (CCC) which clears cheques electronically and the automated clearing house (ACH) which processes and settles direct debits and direct credits amongst participating institutions. GhIPPS also hosts the G-Link- a system that acts as the national link and interconnects the switches owned by the financial institutions as well systems of other payment service providers. Through this link which is integrated with the GIS system at BoG, ATM and POS switching and interoperability is facilitated.

114. GhIPPS' current focus in on completing the outstanding work on the full establishment of the internet payment gateway and the instant pay service. The company also has a solution for bill payments and has built a spec for MNOs to facilitate integration with the switch. However, the MNOs are yet to come on board in terms of fully utilizing the GhIPPS platform; hence full integration with mobile payment services is yet to be achieved. GhIPPS participants are charged for the services offered using a fee structure that is publicly disclosed. The company reports to the BoG on a monthly basis and to all participants as part of the operational procedures.

115. The use of cash in Ghana is still quite predominant, despite the various development and initiatives to promote electronic means of payment. Authorities are aware of the role played by

retail payments in particular in driving financial inclusion. However, the awareness needs to be supported by specific strategies for achieving a significant shift from cash and paper based payments to electronic means.

116. The cheque is the leading paper based payment instrument in Ghana in terms of usage. According to GhIPPS, as at end of 2015, the total value cleared through GhIPPS totaled GH¢146.34 billion of which GH¢108.76 billion representing 74percent, comprised cheque clearing. A cheque limit of GH¢30,000 is applicable for bank-to-bank payments. Customers are however not bound by any limit when writing cheques except when paying third parties (a limit of GH¢5000 applies).

117. There has been significant improvement in the uptake of the biometric based e-Zwich card since its inception with approximately 1.5 million cards issued to date. Given its offline transaction processing attributes and the gap it can fill in supporting the distribution of funds and contributing to financial inclusion, additional measures should be sought to address the initial negative perceptions associated with the product and to using the full facilities offered through this card. It is mandatory for all banks in Ghana to issue the e-Zwich card.

118. The BoG realizes the importance of having a National Payments Council (NPC) in order to facilitate dialogue with all relevant stakeholders in the payments systems modernization. However, the BoG is yet to establish such a Council. The NPC is the permanent body that facilitates high-level cooperation and consultation in the area of payment and settlement systems and services under the leadership of the central bank. The Council's terms of reference should ensure clear tasks and responsibilities, broad membership that includes all relevant NPS stakeholders, and an appropriate level of representation of stakeholders. The NPC should be supported by appropriate sub groups to facilitate dialogue and address problems of common interest at technical level in specific areas (e.g. retail payment systems, operational and IT security, legislation).

119. Following a decision made by the Government of Ghana in 2013, the two central securities depositories (CSDs) owned by the Ghana Stock Exchange (GSE) and the BoG were merged in January 2014. The CSD at the BoG used to hold Government TBs, Government bonds and BoG securities while the GSE one held equities-ordinary shares corporate bonds and exchange traded funds (ETFs). The new entity is jointly owned by the BoG and the Ghana Stock Exchange in proportions of 70 percent to 30 percent respectively. The merger of the operating systems is currently under way and this is set to introduce an upgraded state of the system that will support the introduction of more products on the market.

120. The CSD is an important infrastructure in facilitating the achievement of delivery versus settlement of securities and facilitating the dynamic management of collateral within the GIS system at the BoG. The regulatory authority for the CSD is the Securities Exchange Commission (SEC); all CSD regulations and rules have to be approved by the SEC before they are issued. The trading of equities takes place on a T+3 basis while that of debt instruments settles on a T+2 basis.

Key recommendations

121. In the medium term, the BoG should provide for standalone status of the payment system oversight function and incorporate explicit provisions in the PSA in order to strengthen the BoG's mandate in this area. Dynamic developments in the area of retail payments call for continuous undivided attention by central banks and adequate resources in order to effectively respond

to the regulatory and supervisory challenges. The NPSO should become an independent department with hierarchical level similar to the BSD's, and be given clear responsibilities in relation to other departments within BoG and external stakeholders. The oversight function at the central bank is critical in ensuring, inter alia,: a) that payment systems developments take place in a coordinated manner; b) an adequate risk management framework for the protection of consumers; maintenance of financial stability and consumer confidence in interfacing with the financial system.

122. The BoG should embark on capacity building of payment system oversight function by strengthening NPSO which is a prerequisite for maintaining a strong oversight function within BoG. This is particularly important given that rapid developments in the payments business, particularly in the area of innovative payment mechanisms which have become the cornerstone for supporting financial inclusion, often create a knowledge gap between the payments overseer and the industry.

123. The BoG should consider devising strategies for achieving full interoperability and utilization of the state of the art systems at the GhIPPS. The fact that GhIPPS attained ISO 27001 certification within 2 years of commencing operations, bears testimony to the quality of the infrastructure used to support retail payments systems in the country and to the company's commitment to providing quality service. A more structured approach supported by central bank policies designed to achieve interoperability, increase electronic payments and reduce high dependence on cash, increase direct credits and integrate mobile payments onto the platforms of GhIPPS should be considered.

124. A comprehensive review of the legal and regulatory framework governing payment and securities settlement systems is considered necessary in order to identify any gaps, ensure adequacy and consistency in strengthening the legal basis for financial market infrastructures in Ghana. This is particularly important following the revision of the standards governing such structures.

125. The oversight capacity constraints at the BoG should be addressed in order to ensure that the central bank carries out this function in line with international good practice. Addressing this would also ensure full enforcement of some of the customer related provisions outlined in the e-money guidelines and Payment Systems Act (PSA) which appear not be enforced currently. In this regard, the BoG may wish to consider requesting tor technical assistance and developing a comprehensive plan for building the capacity on an ongoing basis.

126. Given the intricate linkage between the CSD and the GIS and the fact that both are governed by the same international standards, **regulatory authorities at BoG and SEC should consider combined training on the PFMIs** in order to ensure better coordination and understanding. Both regulators expressed a need for assistance in this area.