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Report No: PAD00050

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF US$250 MILLION
OF WHICH US$60 MILLION FROM SCALE-UP WINDOW-SHORTER MATURY LOAN

TO THE

REPUBLIC OF GHANA

FOR THE

GHANA FINANCIAL STABILITY PROJECT

MAY 7, 2024

Finance, Competitiveness and Innovation Global Practice
Western and Central Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective March 31, 2024)

| | |
|---|---|
| Currency Unit = | Ghana Cedi (GHS) |
| GHS 13.25 = | US$1.00 |

FISCAL YEAR
January 1 - December 31

| | |
|---|---|
| Regional Vice President: | Ousmane Diagana |
| Country Director: | Robert R. Taliercio |
| Regional Director: | Abebe Adugna Dadi |
| Practice Manager: | Mehnaz S. Safavian |
| Task Team Leaders: | Carlos Leonardo Vicente, Cedric Mousset |

## ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| AfDB | African Development Bank |
| AM | Accountability Mechanism |
| AQR | Asset Quality Review |
| AT1 | Additional Tier 1 |
| BoG | Bank of Ghana |
| CAGD | Controller and Accountant General Department |
| CAR | Capital Adequacy Ratio |
| CCDR | Country Climate and Development Report |
| CET1 | Common Equity Tier 1 |
| CPF | Country Partnership Framework |
| CRR | Cash Reserve Ratio |
| CTRC | Central Tender Review Committee |
| DA | Designated Account |
| DBG | Development Bank Ghana |
| DDEP | Domestic Debt Exchange Program |
| DPF | Development Policy Financing |
| E&S | Environmental and Social |
| ECF | Extended Credit Facility |
| ESHS | Environment, Social, Health, and Safety |
| ESMS | Environmental and Social Management System |
| ESS | Environmental and Social Standards |
| ETC | Entity Tender Committee |
| FCDO | Foreign, Commonwealth and Development Office |
| FIF | Financial Intermediary Financing |
| FM | Financial Management |
| FSD | Financial Sector Division |
| FSSS | Financial Sector Strengthening Strategy |
| GAS | Ghana Audit Service |
| GAT | Ghana Amalgamated Trust |
| GBV | Gender-Based Violence |
| GDFP | Ghana Development Finance Project |
| GDP | Gross Domestic Product |
| GDPC | Ghana Deposit Protection Corporation |
| GDPF | Ghana Deposit Protection Fund |
| GETP | Ghana Economic Transformation Project |
| GFSDP | Ghana Financial Sector Development Project |
| GFSF | Ghana Financial Stability Fund |
| GFSDP | Ghana Financial Sector Development Project |
| GHG | Greenhouse Gas |
| GIFMIS | Ghana Integrated Financial Management Information System |
| GoG | Government of Ghana |
| GRS | Grievance Redress Service |
| ICR | Implementation Completion and Results Report |

| | |
|---|---|
| IFR | Interim Financial Report |
| IMF | International Monetary Fund |
| IPF | Investment Project Financing |
| LoC | Line of Credit |
| M&E | Monitoring and Evaluation |
| MDA | Ministries, Departments, and Agency |
| MoF | Ministry of Finance |
| MSME | Micro, Small, and Medium Enterprise |
| NDC | Nationally Determined Contribution |
| NIB | National Investment Bank |
| NIC | National Insurance Commission |
| NPL | Nonperforming Loan |
| NPRA | National Pension Regulatory Authority |
| OCC | Official Creditor Committee |
| PCC | Project Coordination Committee |
| PCE | Private Capital Enabling |
| PCG | Partial Credit Guarantee |
| PCM | Private Capital Mobilized |
| PDO | Project Development Objective |
| PFMU | Project Financial Management Unit |
| PIU | Project Implementation Unit |
| PPSD | Project Procurement Strategy for Development |
| PRAMS | Procurement Risk Assessment and Management System |
| RWA | Risk-Weighted Asset |
| SDI | Specialized Deposit-Taking Institution |
| SEA | Sexual Exploitation and Abuse |
| SEC | Securities and Exchange Commission |
| SEP | Stakeholder Engagement Plan |
| SH | Sexual Harassment |
| SME | Small and Medium Enterprise |
| STEP | Systematic Tracking of Exchanges in Procurement |
| TTL | Task Team Leader |
| WBG | World Bank Group |

TABLE OF CONTENTS

## DATASHEET

### BASIC INFORMATION

| Project Beneficiary(ies) | Operation Name | | |
|---|---|---|---|
| Ghana | Ghana Financial Stability Project | | |
| Operation ID | Financing Instrument | Environmental and Social Risk Classification | |
| P180719 | Investment Project Financing (IPF) | Substantial | |

### Financing & Implementation Modalities

| | |
|---|---|
| [ ] Multiphase Programmatic Approach (MPA) | [ ] Contingent Emergency Response Component (CERC) |
| [ ] Series of Projects (SOP) | [ ] Fragile State(s) |
| [ ] Performance-Based Conditions (PBCs) | [ ] Small State(s) |
| [✓] Financial Intermediaries (FI) | [ ] Fragile within a non-fragile Country |
| [ ] Project-Based Guarantee | [ ] Conflict |
| [ ] Deferred Drawdown | [ ] Responding to Natural or Man-made Disaster |
| [ ] Alternative Procurement Arrangements (APA) | [ ] Hands-on Expanded Implementation Support (HEIS) |

| Expected Approval Date | Expected Closing Date |
|---|---|
| 30-May-2024 | 30-Jun-2028 |
| Bank/IFC Collaboration | Joint Level |
| Yes | Complementary or Interdependent project requiring active coordination |

### Proposed Development Objective(s)

To support the recapitalization of viable banks and specialized deposit-taking institutions to contribute to financial stability.

### Components

| Component Name | Cost (US$) |
| --- | --- |
| Capitalization of Fund A1 of Ghana Financial Stability Fund | 406,000,000.00 |
| Technical Assistance | 25,000,000.00 |
| Project Management, Monitoring and Evaluation | 5,000,000.00 |

### Organizations

| | |
| --- | --- |
| Borrower: | THE REPUBLIC OF GHANA |
| Implementing Agency: | Ministry of Finance |

## PROJECT FINANCING DATA (US$, Millions)

### Maximizing Finance for Development

**Is this an MFD-Enabling Project (MFD-EP)?** Yes

**Is this project Private Capital Enabling (PCE)?** No

### SUMMARY

| | |
| --- | --- |
| **Total Operation Cost** | **436.00** |
| **Total Financing** | **436.00** |
| **of which IBRD/IDA** | **250.00** |
| **Financing Gap** | **0.00** |

### DETAILS

**World Bank Group Financing**

| | |
| --- | --- |
| International Development Association (IDA) | 250.00 |
| IDA Shorter Maturity Loan (SML) | 250.00 |

**Non-World Bank Group Financing**

| | |
| --- | --- |
| Commercial Financing | 186.00 |
| Unguaranteed Commercial Financing | 186.00 |

### IDA Resources (US$, Millions)

| | Credit Amount | Grant Amount | SML Amount | Guarantee Amount | Total Amount |
|---|---|---|---|---|---|
| National Performance-Based Allocations (PBA) | 0.00 | 0.00 | 190.00 | 0.00 | 190.00 |
| Scale-Up Window (SUW) | 0.00 | 0.00 | 60.00 | 0.00 | 60.00 |
| **Total** | **0.00** | **0.00** | **250.00** | **0.00** | **250.00** |

### Expected Disbursements (US$, Millions)

| WB Fiscal Year | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|
| Annual | 0.00 | 47.00 | 74.00 | 63.00 | 66.00 |
| Cumulative | 0.00 | 47.00 | 121.00 | 184.00 | 250.00 |

## PRACTICE AREA(S)

### Practice Area (Lead)

Finance, Competitiveness and Innovation

### Contributing Practice Areas

## CLIMATE

### Climate Change and Disaster Screening

Yes, it has been screened and the results are discussed in the Operation Document

## SYSTEMATIC OPERATIONS RISK- RATING TOOL (SORT)

| Risk Category | Rating |
|---|---|
| 1. Political and Governance | Substantial |

| | |
|---|---|
| 2. Macroeconomic | High |
| 3. Sector Strategies and Policies | Substantial |
| 4. Technical Design of Project or Program | Substantial |
| 5. Institutional Capacity for Implementation and Sustainability | Substantial |
| 6. Fiduciary | Moderate |
| 7. Environment and Social | Substantial |
| 8. Stakeholders | Substantial |
| 9. Overall | Substantial |

## POLICY COMPLIANCE

### Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [√] No

Does the project require any waivers of Bank policies?

[ ] Yes [√] No

## ENVIRONMENTAL AND SOCIAL

### Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

| E & S Standards | Relevance |
|---|---|
| ESS 1: Assessment and Management of Environmental and Social Risks and Impacts | Relevant |
| ESS 10: Stakeholder Engagement and Information Disclosure | Relevant |
| ESS 2: Labor and Working Conditions | Relevant |
| ESS 3: Resource Efficiency and Pollution Prevention and Management | Relevant |
| ESS 4: Community Health and Safety | Relevant |
| ESS 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement | Relevant |
| ESS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources | Relevant |
| ESS 7: Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities | Relevant |

| | |
|---|---|
| ESS 8: Cultural Heritage | Relevant |
| ESS 9: Financial Intermediaries | Relevant |

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

**LEGAL**

### Legal Covenants

| Sections and Description |
|---|
| Not later than 90 days after the Effectiveness Date or such later date as agreed with the Association, establish and thereafter maintain throughout the implementation of the project, a Project Coordination Committee with functions, responsibilities, and sufficient resources acceptable to the Association. |
| Not later than 90 days after the Effectiveness Date or or such later date as agreed with the Association, assign an additional project accountant to the project. |
| No later than 90 days after the Effective Date or such later date as agreed with the Association, establish, publicize, maintain and operate an accessible grievance mechanism, to receive and facilitate resolution of concerns and grievances of Project-affected people, and take all measures necessary and appropriate to resolve, or facilitate the resolution of, such concerns and grievances, in a manner acceptable to the Association. |

### Conditions

| Type | Citation | Description | Financing Source |
|---|---|---|---|
| Effectiveness | Article V of the FA | The Recipient has prepared and adopted a Project Implementation Manual in form and substance satisfactory to the Association. | IBRD/IDA |
| Disbursement | Schedule 2, Section III (B)(1)(b)(i) | The Recipient, through he MoF recruited a qualified Investment Advisory Firm to support the Secretariat under terms and conditions satisfactory to the Association. | IBRD/IDA |
| Disbursement | Schedule 2, Section III (B)(1)(b)(ii) | The Recipient, through the MoF established an ESMS, including qualified environmental and social specialist(s) (through the | IBRD/IDA |

| | | | |
|---|---|---|---|
| | | Investment Advisory Firm) under terms and conditions all in a manner satisfactory to the Association. | |
| Effectiveness | Article V of FA | The Recipient has revised and adopted the GFSF Operational Framework in form and substance satisfactory to the Association, and it has published it on the MoF's website. | IBRD/IDA |

## I. STRATEGIC CONTEXT

### A. Country Context

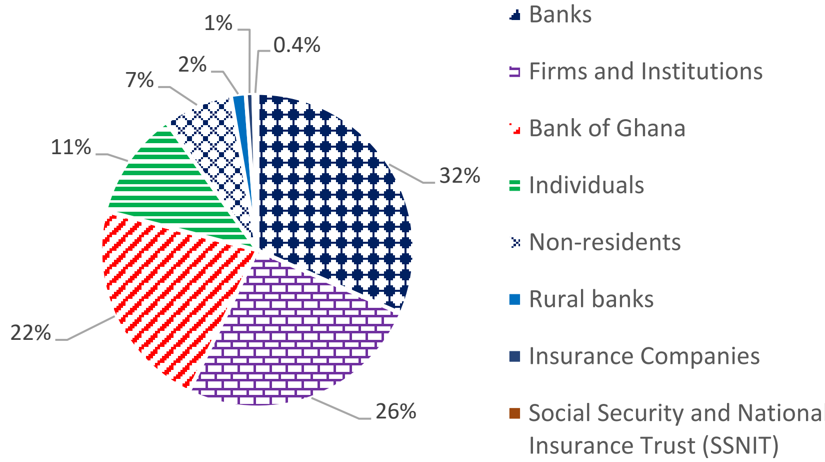
1. **In 2022, a confluence of preexisting structural bottlenecks and external shocks brought Ghana into a deep macroeconomic crisis.** Even before the COVID-19 pandemic, Ghana maintained an expansionary fiscal stance, financed largely by commercial debt (external and domestic). The COVID-19 pandemic and the Russia's invasion of Ukraine, combined with the tightening of global financial conditions, exacerbated the country's macroeconomic vulnerabilities. In 2022, the combination of tightening financial conditions, rapidly rising debt levels (from 79.6 percent of gross domestic product [GDP] in 2021 to 92.4 percent of GDP in 2022), high inflation (from 12.6 percent in December 2021 to 54.1 percent in December 2022), steep depreciation of Ghana's currency,[1] and the dwindling foreign international reserves led to a macro-financial crisis and loss of access to the Eurobond markets.

2. **The loss of access to the Eurobond market, combined with high levels of uncertainty and loss of investor confidence, led to large capital outflows, which in turn added to the pressures on the exchange rate and created a negative feedback loop with inflation.** In 2022, inflation continued to rise despite monetary tightening and decelerating economic activity. As the Government of Ghana (GoG) turned increasingly to the domestic financial sector for funding, market interest rates rose and became a hindrance for the private sector, while banks built excessive exposure to the sovereign. These developments severely curtailed the post-COVID-19 economic recovery as growth slowed down to 3.1 percent in 2022. As growth slowed down and inflationary pressures continued to build, tax revenues plummeted, and investors began to lose confidence in Ghana's public debt sustainability.

3. **In December 2022, Ghana announced a restructuring of its debt and sought International Monetary Fund (IMF) support through the Extended Credit Facility (ECF).** On December 5, 2022, the GoG announced its Domestic Debt Exchange Programme (DDEP), which was completed in September 2023. On December 19, 2022, Ghana announced a moratorium on all official bilateral and commercial external debt repayments and requested debt treatment to the Paris Club under the G20 Common Framework.[2] Ghana restructured its domestic debt in two phases, the largest share of which was held by financial institutions (figure 1). The first phase was completed on February 21, 2023, and covered local currency domestic bonds issued by the Government and select state-owned enterprises (17.8 percent of GDP). The total amount exchanged was GHS 82.9 billion (US$7.2 billion) or 85 percent of the GHS 97.7 billion (US$8.5 billion) eligible bonds. Financial institutions tendered GHS 60.6 billion (US$5.3 billion), with banks alone tendering GHS 48.4 billion (US$4.2 billion). The second phase was completed in September 2023 and covered locally issued US$ government bonds (1.1. percent of GDP), cocoa bills issued by the Cocoa Marketing Board (1.4 percent of GDP), and bonds held by pension funds (4.4 percent of GDP). Investors were offered new bonds with lower coupon rates and longer maturities. As a result, the weighted average interest rate on domestic debt reduced from 21.2 percent at the end of December 2022 to 12.7 percent at the end of September 2023, while the average time to maturity increased from 2.7 years to 6.2 years.

[1] The year-on-year depreciation of GHS accelerated sharply in the first 11 months of 2022, from around 15 percent in the first quarter to 54 percent in November 2022, but it slowed down to 30 percent by the end of the year. The GHS has continued to depreciate in 2023 but at a slower pace.
[2] On May 12, 2023, the Paris Club, China, India, Saudi Arabia, and Türkiye formed an Official Creditor Committee (OCC - co-chaired by China and France) and provided financing assurances to Ghana.

**Figure 1. Holding Structure of Domestic Government Securities (in percent, December 2022)**




*Source*: Bank of Ghana; World Bank staff calculations.

4. **Economic conditions have improved over 2023 owing to the authorities' effort toward restoring fiscal and debt sustainability, bolstering growth prospects, curbing inflation, and buttressing financial sector stability.** Growth, inflation, and international reserve accumulation outperformed the IMF program objectives for 2023 and the exchange rate has broadly stabilized. Despite the impact of the crisis on investor confidence, inflation's effect on households' purchasing power, and the ongoing fiscal consolidation, growth in 2023 has proven more resilient than expected, reaching 2.3 percent. Inflation declined to 23.2 percent in December 2023 from a peak of 54.1 percent in December 2022 owing to the tight monetary policy stance adopted by Bank of Ghana (BoG).[3] Moreover, the public finance outlook has improved owing to (a) front-loaded fiscal consolidation as part of the 2024 budget; (b) the completion of the domestic debt restructuring in 2023; (c) an agreement with Official Creditors on January 12, 2024, for the comprehensive restructuring of US$5.4 billion of debt under the G20 Common Framework; (d) the completion of the First Review under the IMF's ECF on January 19, 2023, enabling disbursement of the second tranche of the IMF program (US$600 million); and (e) the approval of the World Bank's First Resilient Recovery Development Policy Financing (DPF, P180718) (US$300 million) on January 23, 2024.

5. **The outlook remains challenging with significant downside risks.** GDP growth is projected to remain weak in 2024 (2.8 percent) because of the ongoing fiscal consolidation, macroeconomic uncertainty, elevated interest rates and inflation, and financial sector and energy sector weaknesses. GDP growth is expected to slowly recover to 4.4 percent in 2025 and gradually rise toward potential in 2026, aided by ongoing structural reforms. However, there are four significant risks. First, low levels of capitalization and high nonperforming loans (NPLs) may further constrain the banking sector's ability to provide credit to the real sector and support economic recovery. Second, the realization of contingent liabilities from the energy sector could result in additional financing needs. Third, domestic policy slippages due to the political cycle, with spending pressures before the elections in December 2024, risk derailing the Government's resolve on fiscal discipline and macroeconomic recovery. Fourth, any delay in the external commercial debt restructuring process could compromise continued adherence to the IMF program. Moreover, risks could result from commodity price shocks and longer-than-expected tight monetary policy stance in advanced economies. The proposed project seeks to partly mitigate the first risk while the IMF-ECF program and the World Bank's DPF series (P180718) will mitigate the remaining risks.

[3] BoG raised its policy rate by 15.5 percentage points from January 2022 to 30 percent as of end-October 2023, before lowering it by 1 percentage point in January 2024 to 29 percent. It also increased the banks' minimum reserve requirements.

6. **Ghana is highly vulnerable to extreme weather events and climate change; without sufficient adaptation, this could impair growth in the medium term.** According to the Ghana Country Climate and Development Report (CCDR)[4] of 2022, half of Ghana's coastline is vulnerable to erosion and flooding because of sea level rise. Without prompt actions, higher temperatures and heat stress will affect crop and labor productivity, and more erratic rainfall patterns will damage buildings and infrastructure. Land degradation, water insecurity, and air pollution will also hamper human capital and productivity. Income could decline by up to 40 percent for poor households by 2050 and at least 1 million more people could fall into poverty due to climate shocks unless climate actions are taken.

7. **Ghana's updated Nationally Determined Contribution (NDC) under the Paris Agreement outlines 19 policy actions requiring an investment of US$9.3 billion to US$15.5 billion from 2020 to 2030 to build a resilient low-carbon economy capable of withstanding the impact of climate change and contributing to global emission reduction efforts.** To achieve the ambition of a low-carbon economy, a resilient financial system capable of promoting sustainable practices in areas such as food security, infrastructure, and energy is needed.

## B. Sectoral and Institutional Context

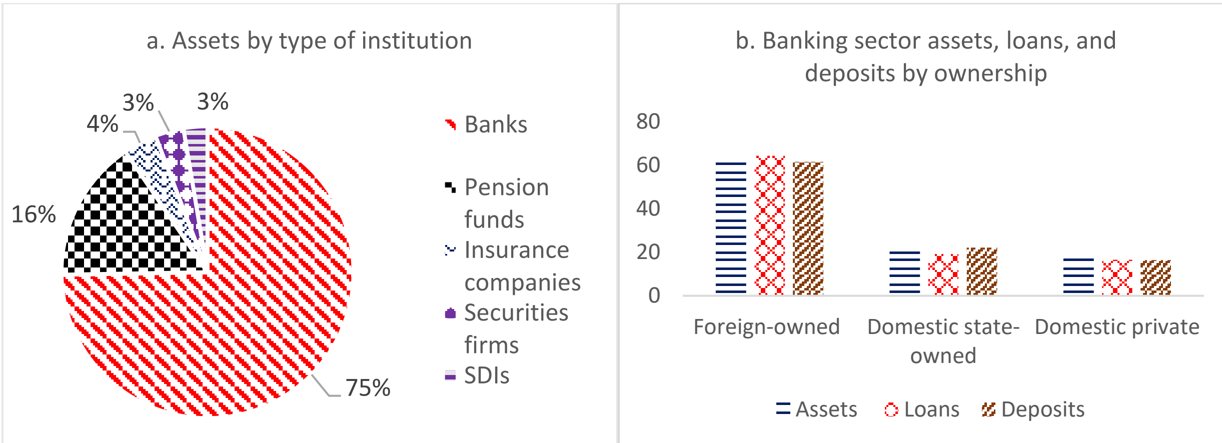
### Banking Sector Performance before the DDEP

8. **Ghana's financial sector is dominated by banks.** Total financial sector assets were equivalent to 48 percent of GDP (or US$35.1 billion) in 2022. Banks held three-quarters of such assets (figure 2, panel a) and provided critical services such as deposits, domestic and cross-border payments, and credit. There are 23 commercial banks: 14 private foreign owned (mostly subsidiaries of Pan-African groups from South Africa, Nigeria, and Togo), 5 domestic-private, and 4 state-owned banks. The state also has significant ownership interests in three domestic private banks through the Ghana Amalgamated Trust (GAT).[5] Foreign-owned banks held the bulk of assets, loans, and deposits (figure 2, panel b). Pension funds, the second largest subsector, held 16 percent of the total assets. Specialized deposit-taking institutions (SDIs)—comprising rural and community banks, microfinance institutions, savings and loans, and finance houses—held only 3 percent of the assets, the same percentage held by insurance companies. Despite their small share of the financial sector, SDIs play an important role as the only institutions serving low-income households, including in rural areas. For instance, SDIs hold about 10.5 million deposit accounts, most of which belong to women.

[4] https://openknowledge.worldbank.org/server/api/core/bitstreams/9c9764c1-076d-5dcc-8339-6e4f0de2b610/content

[5] GAT is a state-owned limited liability company established in 2018 to raise funds to capitalize domestic-owned banks that were unable to meet the minimum paid-up capital of GHS 400 million that came into force in January 2018.

**Figure 2. Structure of the Financial Sector (in percent, December 2022)**




*Source*: Annual Reports of BoG, NIC, NPRA, and SEC; World Bank staff calculations.

9. **Before the DDEP, the banking sector appeared largely sound following public interventions from 2017 to 2019 to quell the impact of financial stress.** The average capital adequacy ratio (CAR) stood at 16.4 percent in September 2022, above the regulatory minimum of 13 percent.[6] Most banks appeared well capitalized, profitable, and liquid. The average return on assets and equity was 4.5 percent and 21.9 percent, respectively. However, the average NPL ratio was high at 14.1 percent (even if highly provisioned). Operational efficiency was also an issue, with a high cost-to-income ratio of 80.2 percent. Between 2017 and 2019, BoG resolved nine domestic banks and liquidated 411 SDIs.[7] The availability of public funds was key in making this possible. The GoG spent 5.5 percent of GDP to support the resolution of banks, SDIs, and fund managers. The cleanup was not completed as some SDIs and fund management companies remained undercapitalized and unable to meet their obligations to depositors and investors. One state-owned bank continues to operate without complying with BoG requirements. These institutions are known as 'legacy issues', and the authorities have committed to address them by end-2024.

10. **The authorities embarked on significant reforms over the past decade to strengthen banking regulation and their ability to effectively supervise and resolve banks.** They implemented International Financial Reporting Standards and regulatory reforms aligned with Basel III, which helped improve the reliability of financial and prudential metrics. BoG enhanced its capacity to implement risk-based supervision. The Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930) strengthened BoG's prompt corrective action framework as well as bank resolution powers and tools, which were used during the 2017–2018 financial sector cleanup. However, lack of ex ante resolution funding and material gaps in the deposit insurance system remain a challenge.[8]

**Impact of the DDEP on Ghana's Banking Sector**

11. **The DDEP severely affected the solvency of many banks that held large amounts of domestic public debt at the onset of the DDEP.** Government securities accounted for about 40 percent of the banking system's assets, represented 3.4 times regulatory capital on average, and were a key driver of many banks' profitability. Banks recorded DDEP-related

[6] September of 2022 was the last reporting quarter before the launch of the DDEP.
[7] Two banks were resolved using purchase and assumption transactions and seven through the establishment of a bridge bank.
[8] The Ghana Deposit Protection Fund (GDPF) has limited resources. Its mandate does not allow it to support resolution when this would be the lowest cost option, and it only offers a low deposit coverage of GHS 6,250 (US$572 equivalent) for bank depositors and GHS 1,250 (US$114 equivalent) for SDI depositors. The coverage limit for banks is equivalent to 26 percent of per capital in 2022 compared to a median coverage in lower-middle-income countries of about 200 percent.

impairment charges of GHS 16.3 billion (US$1.5 billion) in 2022.[9] As a result, the industry incurred an aggregate loss of GHS 8 billion (US$696 million), with only 6 banks out of 23 recording a profit in 2022. Half of the system's regulatory capital was wiped out in December 2022 and the average CAR without regulatory reliefs fell below the minimum of 13 percent. Domestic-owned banks (state owned and private) were the most affected due to their higher exposures to GoG debt and lower capital buffers. Despite the banking industry's strong profitability in 2023, some banks are yet to meet a 13 percent CAR and require additional capital to swiftly do so. There was no sign of liquidity stress following the DDEP shock.

12. **While financial stability has been preserved, the availability of credit and correspondent banking services declined, hampering economic recovery.** BoG estimates that the ratio of private sector credit to GDP declined from 10.4 percent in December 2022 to 8.3 percent in December 2023. In addition to concerns about borrowers' creditworthiness due to high interest rates and the adverse environment, some banks aim to cut credit to reduce their risk-weighted assets (RWAs) and improve their CARs. Moreover, correspondent banks curtailed the services they offer to Ghanaian banks, constraining the ability of some banks to engage in trade finance, access foreign exchange, and provide related services to their customers. Banks' off-balance sheet transactions (mainly trade finance and guarantees) contracted by 33 percent in the year ending October 2023. The restoration of sound capital buffers of the weakest banks is a precondition to restore their ability to support the economic recovery.

13. **The impact of the DDEP on SDIs is limited to a few institutions.** About one-fifth of the 366 existing SDIs exchanged bonds worth about GHS 1.1 billion (US$101 million). Bond holdings among SDIs were relatively low because SDIs prefer to invest in Treasury Bills and had no holdings of Eurobonds or locally issued US$ government bonds. The SDI sector was in a weak solvency position before the DDEP.

**Authorities' Actions to Mitigate Financial Stability Risks**

14. **In June 2023, in consultation with the World Bank and IMF, the authorities approved a Financial Sector Strengthening Strategy (FSSS) to preserve financial stability.** The FSSS's key measures are summarized in box 1. Its implementation will be financed using the 2.6 percent of GDP (~US$2 billion) set aside by the GoG for financial sector support under the IMF program (including this project's proposed contribution). This 2.6 percent of GDP—added to private shareholders' contributions—is material to cover the authorities' initial estimate of the solvency gap arising from the DDEP across the financial sector (GHS 23.8 billion or US$2.1 billion), including from the banking and non-banking sectors.[10] This estimated gap includes the cost of dealing with the 'legacy issues'. Should additional financial sector support be required over and above the 2.6 percent of GDP, the Government indicated in the FSSS that it "will stand ready to do all it takes to provide the necessary fiscal backstop to help preserve the stability of the financial system."

[9] Bank of Ghana. 2023. "Financial Stability Review 2022." Impairments related to phase 1 of the DDEP are fully reflected at end-2022.
[10] The banking sector includes banks and SDIs while the non-banking sector includes insurance companies, corporate pension trustees, fund managers, and broker dealers.

**Box 1. FSSS Key Measures to Mitigate Financial Stability Risks**

- Operationalization of the Ghana Financial Stability Fund (GFSF). In 2023, the Parliament appropriated about US$500 million equivalent to Fund A2 of the GFSF.
- Submission by banks of plans to complete recapitalization by end-2025. BoG reviewed the plans by September 2023 (IMF-ECF's structural benchmark achieved).
- Legacy troubled institutions, including state-owned National Investment Bank (NIB), SDIs, and fund management companies, to be addressed by end-2024. For this purpose, the Parliament appropriated GHS 4 billion (US$348 million) in the 2024 budget. Regarding NIB, BoG and the Ministry of Finance (MoF) will design and begin to implement, by end-March 2024, a credible, comprehensive, and cost-effective plan that seeks to address NIB's insolvency challenges by end-2024 (IMF-ECF's structural benchmark).
- Strengthening of the deposit insurance by amending the Ghana Deposit Protection Corporation (GDPC) Act, 2016 (Act 931) by end-2024 to expand the GDPC's mandate and increasing the reserves of the GDPF by end-2025 (triggers for the World Bank DPF series).
- Review by BoG of its prudential regime to identify required amendments to better mitigate the risks of banks' sovereign exposures and implement such amended rules as needed before end-June 2025 (trigger for the World Bank DPF series).
- Suspension of dividend payments by all banks until further notice.
- Review of banks' business models required by BoG to align them with changing market conditions.

15. **A key priority under the FSSS is setting up the GFSF, which can provide solvency and liquidity support to financial institutions affected by the DDEP.** The GFSF will not be a separate legal entity from the MoF; it will operate with dedicated MoF's accounts at BoG. As depicted in annex 5, the GFSF can comprise a solvency window (Fund A) and a liquidity window (Fund B). The Government is prioritizing the solvency window. Fund A is split into Fund A1 and Fund A2.

16. **Key features of Fund A1.** Fund A1 will be initially capitalized by the GoG (in cash) using IDA proceeds to provide Additional Tier 1 (AT1) capital (annex 2) to eligible undercapitalized banks and SDIs only (both private and state owned). It will not take ownership interests or dilute existing shareholders and will require matching contributions from shareholders. In addition, it will require banks applying for support to have a minimum Common Equity Tier 1 (CET1) ratio of 8.125 percent. The purpose of shareholder contributions and minimum CET1 is to ensure that only viable banks receive support, and, in case of losses, shareholders bear such losses before Fund A1/MoF.[11] Moreover, the ability to raise equity at this point is a signal of future ability to do so if conditions made it necessary.

17. **Key features of Fund A2.** Fund A2 is capitalized by the GoG largely using bonds and will support all types of financial institutions (banks, insurance companies, and SEC-regulated entities), prioritizing those in which the state has equity interest.[12] It will purchase shares in eligible financial institutions. Fund A2 is already operational and deploying the US$500 million allocated to it in the 2024 budget to eligible domestic institutions. The eligibility criteria for Fund A2 is spelled out in the GFSF's Operational Framework and include (a) full participation in the DDEP; (b) submission of viable capital restoration plan notwithstanding the GoG debt restructuring impact and discounting regulatory reliefs; (c) commitment from shareholders to inject additional capital to complement the GoG's funding (in a ratio of 1 to 1) to ensure that the dilution of private shareholders is kept to a minimum; and (d) evidence of strong governance, prudent management, and full compliance with regulatory directives.

[11] In the context of this project, a bank is deemed viable when it meets the minimum CET1 ratio of 8.125 percent, demonstrates its ability to raise new capital at least equivalent to the amount of AT1 that Fund A1 would provide, and is not subject to resolution actions by BoG or to any other supervisory actions that are likely to trigger such resolution. As part of its supervisory activities, BoG is also conducting broader viability assessment, including an assessment of individual banks' risk and business profile.
[12] Including systemically important insurance companies and Securities and Exchange Commission (SEC)-regulated entities.

18. **Fund A1 and Fund A2 are complementary.** Instead of using Fund A2 only to meet their recapitalization needs, banks and SDIs may have the incentive to access Fund A1 because it offers support in cash and does not take ownership interests (non-dilutive). Thus, they could first tap into Fund A2 to meet the minimum CET1 of 8.125 percent required for Fund A1 and then access Fund A1, provided they meet all eligibility requirements. Banks and SDIs can also access Fund A1 without tapping Fund A2, provided they meet Fund A1 eligibility criteria.

19. **The governance of the GFSF will aim to ensure transparency and market confidence.** A five-member Investment Committee has been established to oversee the GFSF. The committee includes one senior representative from each of the following five institutions: the MoF (as Chair), BoG, National Insurance Commission (NIC), National Pension Regulatory Authority (NPRA), and SEC. Four representatives of industry associations are on the Investment Committee as observers. The Investment Committee started regular meetings in early February 2024 to decide on support to individual banks by Fund A2. To enhance transparency, the MoF will publicly disclose relevant information regarding the operations of the GFSF, including its Operational Framework, eligibility criteria, list of beneficiary institutions, and performance. Material events related to individual institutions such as acceptance or rejection of a request for support and coupon cancellation and principal write-off would also be disclosed, but with a time lag to avoid unintended market consequences.

20. **The MoF designated its Financial Sector Division (FSD) as the Secretariat to manage Fund A1.** The Secretariat—comprising technical staff from banking, capital markets, financial markets and innovation, and insurance and pension units of the FSD—will be responsible for the operational aspects of Fund A1 (see section II.A), supported by a competitively selected investment advisory firm. The MoF will directly inject capital into state-owned banks and other financial institutions owned by the state, while GAT will manage support to private financial institutions, including to the banks where GAT has ownership interests.

21. **At the same time that the FSSS was being developed and the GFSF was being designed, BoG also requested undercapitalized banks to submit recapitalization plans showing a path to return to the minimum CAR of 13 percent by end-2025.**[13] BoG expects all banks with approved recapitalization plans to meet their annual 2023 targets and has committed to initiate corrective measures by end-March 2024 against banks that fail to meet minimum annual recapitalization targets (IMF-ECF's structural benchmark). Expected sources of recapitalization include retained profits and new capital injections from existing and new shareholders. It is anticipated that some state-owned and domestic-owned private banks with state interest will immediately draw from the GFSF to help achieve recapitalization milestones outlined in their recapitalization plans. BoG will require an update of recapitalization plans in the first half of 2024 for banks that remain undercapitalized after closing their 2023 financial statements.

22. **While BoG expects banks to achieve their 2023 recapitalization targets, there are risks that could derail achieving the 2024 and 2025 targets, underscoring the relevance of the GFSF to be available to support viable but undercapitalized banks reach the minimum CAR.** It could prove more challenging to meet recapitalization targets if profitability is lower than expected due to a combination of lower interest income because of expected decline in interest rates, elevated operational costs, higher cost of risk (the NPL ratio has been increasing, from 16 percent in December 2022 to 20.7 percent in December 2023), and additional impairment on Eurobonds if the final terms of the exchange turn out to be less favorable than what banks assumed. Moreover, the review of the 2023 accounts by external auditors and the outcomes of BoG's on-site review of all banks' assets conducted in Q4 2023 could also affect impairments that banks need to recognize.[14] According to BoG, the objective of the asset review is "to assess the health of banks' loan and investment

[13] BoG developed a note to guide the preparation of plans and had multiple iterations with concerned banks before completing the review of the plans.
[14] https://www.bog.gov.gh/wp-content/uploads/2023/10/GOVERNORS-ADDRESS-GAB-40TH-ANNUAL-GENERAL-MEETING-021023.pdf. The review covered all 23 banks and focused on the valuation of loans, securities, and other assets.

portfolios to determine if their asset classification is in line with BoG's classification norms as well as International Financial Reporting Standards." The review was completed by BoG staff.

### C. Relevance to Higher Level Objectives

23. **Unlike typical World Bank-funded financial sector crisis response projects that often support the cleanup of the financial sector after bank failures, this proposed project is unique in that it seeks to provide ex ante solvency support to viable banks and SDIs to improve their soundness and boost overall trust in financial sector resilience.** The project would directly support the implementation of the Government's FSSS to preserve financial stability post DDEP. Specifically, it would contribute to the capitalization of Fund A1 of the GFSF, focusing on the provision of non-dilutive capital support to viable banks and SDIs affected by the DDEP. The project is expected to immediately benefit some currently undercapitalized but viable banks (mainly domestic owned) and SDIs, support other banks and SDIs that—due to potential new losses not yet factored into the recapitalization plans—may fall below the minimum CAR, and help build confidence in the ability of the authorities to support financial stability, among others, by providing a backstop against unexpected losses. Banks and SDIs would be expected to first mobilize new capital contributions (excluding retained profits) from shareholders and then use the project support to top up such contributions to meet the minimum CAR.

24. **The rationale for the World Bank to intervene ex ante is because having a recapitalization fund provides incentives for banks to recognize losses early and allows BoG to take swifter action, thereby protecting depositors, the financial sector, and the economy and avoiding the costs associated with a financial crisis.** Eligible banks in need of solvency support will have the option to seek support from Fund A1, encouraging BoG to deliver on its commitment of taking corrective measures against banks that fail to uphold recapitalization plans. International experience shows that twin debt and banking crises are among the costliest, resulting in a reduction in real income per capita of up to 7 percent compared to precrisis levels (World Bank, forthcoming). In fact, the fiscal cost of cleaning up Ghana's financial sector between 2017 and 2019 was about 5.5 percent of GDP and contributed to the debt distress that followed. The fiscal cost and output losses of Ghana's 1982–1983 crisis were 6 percent and 45 percent, respectively, while NPLs peaked at 35 percent.[15] About 81 percent of deposit accounts in Ghana's banking sector have a balance less than GHS 500 (US$43) and therefore millions of small depositors would stand to lose their savings. Women would be the most affected among the SDIs' customers, as they account for majority of the account holders.

25. **The proposed amount of the project alone is not sufficient to offset the capitalization needs of the entire banking sector, but it is expected to complement the capital contributions from private shareholders and the GoG, amplifying its contribution to building public confidence and mitigating risks to financial stability.** The project design requires contributions of new capital (excluding retained profits) from new or existing shareholders. Out of its 2.6 percent of GDP programmed for financial sector support, the Government has already appropriated US$500 million equivalent to Fund A2 and is available for those banks and SDIs facing shareholder shortfalls, including to meet the minimum CET1 capital of 8.125 percent required to access Fund A1. While no other development partners have committed funding to the GFSF thus far, the African Development Bank (AfDB)—through its Fiscal Consolidation and Economic Reform Program—is supporting the development of an Insurance Sector Strengthening Strategy and a Climate Financing Strategy. The Foreign, Commonwealth and Development Office (FCDO) of the United Kingdom Government supported the development of the Operational Framework for the GFSF and capacity building of the MoF and GAT to manage Fund A2.

26. **Alternative interventions were considered with the authorities and discarded during the design of this project.** These included (a) capitalizing the GDPF; (b) supporting the provision of credit to the economy through a line of credit

[15] Laeven, Luc, and Fabian Valencia. 2012. "Systemic Banking Crises Database: An Update." IMF Working Paper WP/12/163, IMF, Washington, DC. https://www.imf.org/external/pubs/ft/wp/2012/wp12163.pdf.

(LoC) and Partial Credit Guarantees (PCGs) to crowd in private sector financing; and (c) establishing and capitalizing a resolution fund. Capitalizing the GDPF would improve its capacity to compensate depositors in the worst-case scenario, thereby boosting public confidence in the banking sector and lowering the probability of a systemic crisis. However, capitalizing the GDPF would not be effective before the completion of key reforms, including increasing the deposit coverage limits and expanding the mandate of the GDPF to enable it to participate in resolution. The World Bank is supporting these reforms through the DPF series. Similarly, the World Bank is already providing LoCs and PCGs through the Ghana Development Finance Project (GDFP, P169742). Moreover, deploying additional LoCs and PCGs without strengthening the soundness of banking sector would be of limited impact. Finally, the project amount would be too small to capitalize a credible resolution fund.[16]

27. **The World Bank DPF series and the IMF-ECF complement this proposed project by supporting reforms that are expected to improve the macroeconomic environment which would enable financial institutions to operate profitably and generate internal capital.** The DPF series supports the Government's efforts to restore macroeconomic stability and lay the foundations for sustainable and resilient economic growth. Specifically, it seeks to restore fiscal sustainability, support financial sector stability and private sector development, improve energy sector financial discipline, and strengthen social and climate resilience. On the financial sector, the DPF supports the following reforms: (a) amendment of the GDPC's Act to expand the corporation's mandate to contribute to resolution funding and increasing the reserves of the GFSF and (b) strengthening of BoG's prudential regime for banks' sovereign exposures. Similarly, the IMF-ECF supports reforms to restore macroeconomic stability and debt sustainability as well as spur growth. It also supports specific financial sector measures such as the completed approval of banks' recapitalization plans by BoG, addressing of 'legacy issues', and corrective measures by BoG against banks that fail to uphold minimum recapitalization requirements.

28. **By supporting interventions to safeguard financial stability, the project complements other World Bank projects directly supporting economic recovery and job creation in Ghana.** The GDFP (P169742) supported the establishment of the Development Bank Ghana (DBG) and provides it with a US$175 million LoC to facilitate long-term financing to small and medium enterprises (SMEs) and small corporates through participating banks and SDIs. The same project will also provide US$50 million to the DBG to capitalize a PCG facility aimed at encouraging financial institutions to lend to SMEs. The Ghana Financial Sector Development Project (GFSDP, P161787) supports financial inclusion and was recently restructured, including to enable the GoG to mobilize technical support for the design of this proposed project. The Ghana Economic Transformation Project (P166539) is supporting business environment reforms, investment promotion and spatial development interventions to crowd in investments, and venture capital to promote entrepreneurship and SME growth. Moreover, the Ghana Jobs and Skills Project (GJSP, P166996) supports the development of labor force skills needed by enterprises, including through financing the provision of apprenticeship training and competitive business start-up grants for individuals as well as competitive grants to private enterprises for expanded employment.

29. **The proposed project is closely aligned with the World Bank Group's (WBG) FY22–26 Country Partnership Framework's (CPF),[17] as it strives to balance emergency economic crisis response with creating the conditions for long-term resilient recovery.** Consistent with the WBG COVID-19 Response Framework, the CPF seeks to support the GoG in managing the impact of the COVID-19 crisis through preserving critical human capital and capabilities while taking the opportunity to build back better for a dynamic and diversified economy, creating job opportunities for a greener, more resilient, and inclusive society. The three focus areas of the CPF are (1) Enhancing Conditions for Private Sector Development with Quality Job Growth; (2) Improving Inclusive Service Delivery; and (3) Promoting Sustainable Resilient

[16] The World Bank has secured funding to support BoG to complete a feasibility assessment for the establishment of an industry-funded resolution fund.
[17] Report No: 157249. Discussed at the Board on January 22, 2022.

Development. The proposed project will support focus area (1) through Pillar 2, via greater financial sector stability, which is critical for objective 1.2 (increased access to finance).

30. **The proposed project is also fully aligned with the WBG's Global Crisis Response Framework.** As stated in the framework, "the WBG's objective is to provide mutually re-enforcing support by addressing short-term shocks to improve prospects for long-term sustainable development, while developing long-term resilience to help prepare for future shocks." Pillar II of the framework calls for Protecting People and Preserving Jobs to help mitigate the medium-to-long-term impact of crises, including through the promotion of financial market stability. The project aims to contribute to financial sector stability by providing timely support for the recapitalization of the banking sector, thereby improving the sector's ability to support private sector job creation. The total cost of the project is US$436 million, consisting of a US$250 million IDA credit and US$186 million from unguaranteed commercial financing. The IDA credit includes a US$60 million Scale-up Window-Shorter Maturity Loan (SUW-SML).

31. **Finally, the project is consistent with Ghana's NDC and aligns well with the Ghana CCDR, emphasizing the crucial role of the financial sector in mobilizing and redirecting finance to the real sector, especially in promoting green finance.** The project supports the recapitalization of the banking sector, enabling it to play the role envisaged in the CCDR, and projects that contribute to climate adaptation. BoG has established and adopted risk frameworks, directives, and sustainable banking principles, requiring banks and SDIs to implement comprehensive risk management strategies covering key considerations such as governance, environmental, social, ethical, and liquidity risks, among others. This project would complement these efforts by supporting the upgrade or establishment of Environmental and Social Management Systems (ESMSs) of some beneficiary banks and SDIs.

## II. PROJECT DESCRIPTION

### A. Project Development Objective (PDO)

**PDO Statement**

32. **To support the recapitalization of viable banks and specialized deposit-taking institutions to contribute to financial stability.**

**PDO Level Indicators**

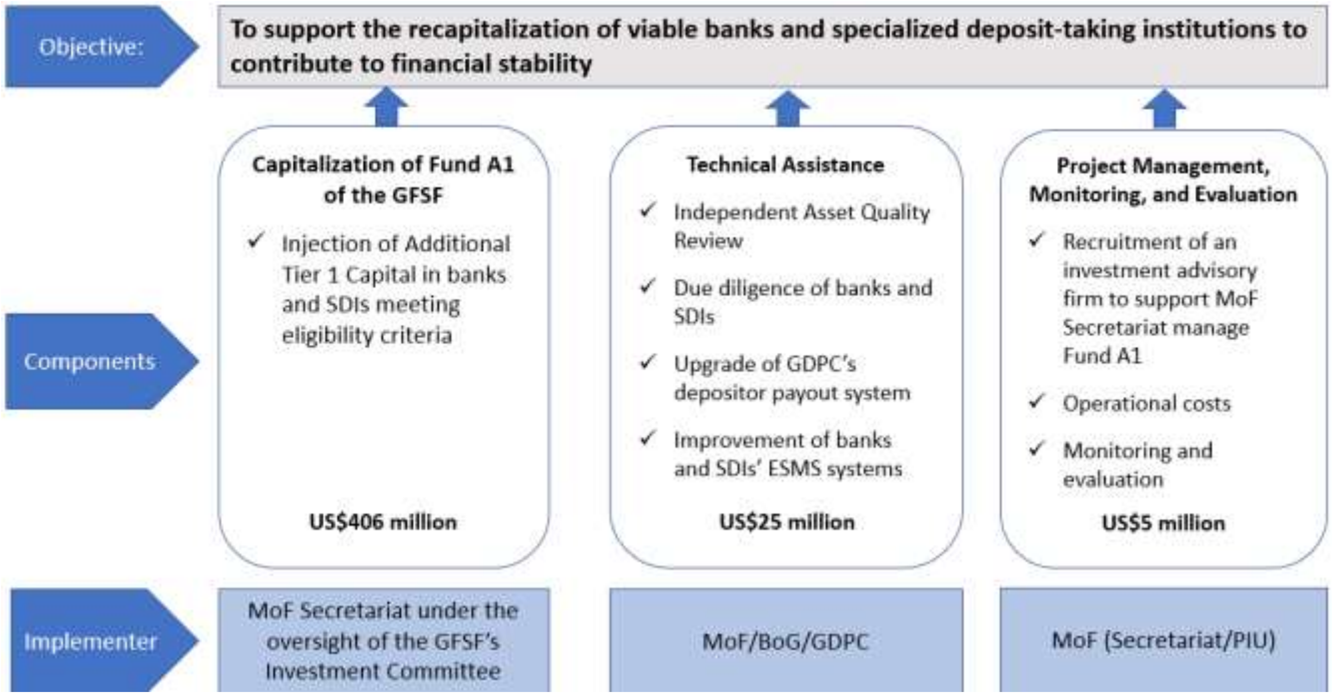
33. **Two indicators will be used to assess the project's progress toward the achievement of the PDO:**

- Banking sector assets held by adequately capitalized banks (without regulatory relief) (percentage)
- Banks adequately capitalized (without regulatory relief) (percentage)

### B. Project Components

34. **Figure 3 provides the overview of the project, including financing allocation by component.**

**Figure 3. Project Overview**




**Component 1: Capitalization of Fund A1 of Ghana Financial Stability Fund (US$406 million, of which US$220 IDA and US$186 million Unguaranteed Commercial Financing)**

35. **Component 1 will capitalize Fund A1 of the GFSF to support (alongside shareholders) the recapitalization of viable banks and SDIs and contribute to financial stability.** This component (Fund A1) will serve three main specific purposes: (a) immediately support some currently undercapitalized but viable banks (mainly domestic owned) and SDIs to reach the minimum CAR; (b) assist other banks and SDIs that—due to potential new losses not yet factored into the recapitalization plans—may fall below the minimum CAR and need support to complement shareholders' recapitalization efforts; and (c) help build confidence in the ability of the authorities to support financial stability if needed by providing a backstop against unexpected losses.

36. **Fund A1 will inject non-dilutive AT1 capital into banks and SDIs by purchasing capital-eligible debt securities voluntarily issued by these institutions** (annex 2). Capital injections will be capped at the maximum AT1 allowed by BoG's capital regulation (currently 1.5 percent of a bank's RWAs). The resulting CAR after Fund A1 support will not exceed the minimum required by BoG in normal time, which is 13 percent for banks and 10 percent for SDIs. Banks and SDIs will issue AT1 instruments using standardized documentation.

37. **Key terms of the proposed AT1 instrument for banks are as follows:**[18]

- Banks' minimum CET1 at issuance: 8.125 percent.
- Trigger point or level of CET1 at which the AT1 instrument is used to absorb losses: 5.125 percent.

[18] Viable banks and SDIs under this project are those that meet eligibility criteria (including minimum CET1 ratio of 8.125 percent and ability to raise new capital). BoG conducts a broader viability assessment as part of its supervisory activities. All capital ratios are without regulatory reliefs.

- Loss absorption mechanism when the trigger point is reached: cancellation of the AT1 instrument (that is, the MoF loses money).
- Exit through cancellation, sale of the outstanding AT1 instrument by the MoF to other investors, or buyback by the issuer bank after five years with approval from BoG.
- Interest/coupon rate to be paid to the MoF will be indexed to the rate of the longest-dated exchanged government bond plus a spread.[19]

38. **Eligibility criteria for Fund A1 are objective and predictable to encourage participation while limiting access to viable institutions only.** Once a bank/SDI meets eligibility criteria and issues AT1 securities, Fund A1 will purchase such securities. The main eligibility criteria for banks (to be detailed in the Project Implementation Manual [PIM]) include the following:

- Undergo an independent due diligence by a reputable firm to ensure that all markdowns and losses have been adequately booked.[20]
- Meet but not exceed the minimum CAR of 13 percent for banks and 10 percent for SDIs after receiving support from Fund A1.
- Have minimum CET1 of 8.125 percent at the time of seeking support from Fund A1. This provides an objective indication that the bank is viable and also protects the MoF against losses.
- Participated fully in the DDEP.
- Comply with BoG capital requirements before phase 1 of the DDEP, as Fund A1 does not aim to address legacy issues.
- Have minimum contribution of new capital from existing and new shareholders of at least the amount to be injected by Fund A1 (1:1 ratio).[21]
- Should not have unresolved material breaches of legal and regulatory requirements (or be likely to encounter such situation), including, but not limited to, key prudential metrics, governance, and requirements related to anti-money laundering and combating the financing of terrorism. Additionally, should not be subject or likely to be subject to other actions, jeopardizing the viability of the institution including resolution.
- Comply with the project's environmental and social (E&S) requirements.

39. **Expected users of Fund A1.** The immediate users are expected to be domestic-owned banks (state owned and private) that are currently undercapitalized, have direct or indirect state participation, and plan to raise new capital from shareholders. This group of banks (with about 27 percent of RWAs) would be expected to tap about 19 percent of Fund A1. A small part of the remaining portion would be expected to support SDIs while the bulk would act as buffer to support (a) banks that project to meet minimum CAR using retained profits, but their recapitalization efforts may fall short and (b)

[19] This is consistent with banks' participation in the DDEP.
[20] These due diligences will be done based on terms of reference to be agreed under the project and by firms to be compensated by the project. The due diligences will not be full-fledged AQRs, but audit assessments and certification of financial positions of the institutions applying to Fund A1. To ensure that the due diligences do not delay the deployment of support to banks and SDIs, audit firms will be procured ex ante and prepositioned to complete the due diligences as soon as possible.
[21] The mobilization of external capital by banks is key to leverage the GFSF contribution and provide a credible indication of further external support if needed. To avoid doubt, retained earnings will not be considered as new capital.

banks and SDIs that—due to potential new losses not yet factored into the recapitalization plans—may fall below the minimum CAR.

40. **The eligibility criteria for SDIs and calibration of the key terms of their AT1 instrument will be similar to banks but adjusted to the SDIs' special circumstances, including applicable prudential regime.** For instance, the minimum capital ratio for participation will be set in relation to Tier 1 capital rather than CET1. The PIM will elaborate on the eligibility criteria and key terms. The number of potentially eligible SDIs is expected to be small because most of the SDIs that participated in the DDEP were already undercapitalized before the DDEP ('legacy issues').

41. **Risk of underuse or overuse of Fund A1 and proposed mitigation measures.** As of March 2024, when project preparation was finalized, the likelihood of underuse is high if (a) banks continue to make profits which help generate internal capital and (b) there are no additional shocks to the financial sector. Even with limited use, Fund A1 is still expected to support financial stability by building confidence in the authorities' ability to intervene if needed. The MoF, BoG, and the World Bank will periodically examine whether any unused funds should be cancelled or reallocated. The risk of overuse appears low in the near term as the amount allocated to Fund A1 could meet the potential AT1 capital needs of the entire banking sector, based on the existing BoG regulation. If requests exceed available resources, the PIM will require the GFSF Investment Committee to seek guidance from BoG on which requests should be prioritized based on systemic importance. In addition, the GoG has committed to deploy additional resources to support the financial sector as needed.

42. **Fund A1 management.** The MoF has designated the FSD as the Secretariat to manage Fund A1. To strengthen the Secretariat's capacity, the MoF will competitively recruit a qualified investment advisory firm comprising an investment specialist, an accounting and administration officer, and E&S specialist(s). Key functions of the Secretariat and the investment advisory firm will include (a) developing key manuals and processes for Fund A1; (b) verifying banks' and SDIs' compliance with the eligibility criteria; (c) commissioning independent due diligence of banks and SDIs; (d) recommending approval and subscription of AT1 instruments; and (e) regular monitoring and reporting on the performance of the Fund. The five-member Investment Committee described in section I.B will make investment decisions based on the eligibility criteria above, to be detailed in the PIM.

43. **Private capital mobilized (PCM).** The project is expected to mobilize about US$186 million (unguaranteed) from private sector shareholders, including US$68 million in FY25 shortly after implementation starts. This estimate is based on expected contributions from private sector shareholders of banks that are likely to tap support from Fund A1, immediately or over the course of the project.[22]

44. **Disbursement Conditions.** Disbursements from the World Bank under this component will be made after the Recipient has met the following conditions: (a) recruited a qualified investment advisory firm, with requisite staff including an investment specialist, accounting and administration officer, and E&S specialist(s) and (b) adopted an ESMS. These conditions are required to ensure implementation readiness for Component 1 but not for Components 2 and 3 of the project. Turning these disbursement conditions into effectiveness conditions would hold up funding for the recruitment

[22] These estimates are based on available data as of December 2023, eligibility criteria, and discussions with individual banks. While a minimum ratio of new CET1 to new AT1 of 1 always applies, the actual ratio may be much higher in practice, for example, where shareholders need to bring more CET1 to meet the required minimum CET1 ratio of 8.125 percent at the time of seeking support from Fund A1. For FY25, five domestic-owned banks are expected to rapidly seek support from Fund A1. For private domestic banks, PCM calculations assume that they will only raise half of their capital needs from private sources. The remaining portion is expected to be provided by the Government (including through Fund A2), and together with Government's support to state-owned banks, does not count as PCM. Beyond FY25, there is high uncertainty on the usage profile of Fund A1 and the project acts as a backstop. For FY26–28, the estimates are thus based on the assumption that disbursement would be equal each year, that banks' shareholders would in practice need to bring two of new shareholder capital for one of AT1 (much less than observed for the five banks likely to immediately approach Fund A1 but still above the minimum requirement of 1 to 1 as material losses would be the cause for approaching Fund A1), and one-third of external capital would be raised from the private sector.

of the investment advisory firm under Component 2. The MoF has initiated the recruitment of the investment advisory firm and development of the ESMS, both expected to be completed by end-June 2024.

**Component 2: Technical Assistance (US$25 million)**

45. **This component will finance technical assistance to improve BoG's assessment of banking sector risks and inform the development of appropriate remedies, enhance GDPC's preparedness, complete due diligence of banks and SDIs, and build the E&S risk management capacity of banks and SDIs.** The component will finance the following activities:

- **Independent asset quality review (AQR) for banks.** Unless banking sector conditions improve significantly, an independent AQR would be completed by reputable firms to provide an up-to-date picture regarding the quality of banks' assets. The AQR would be based on rigorous methodologies aligned with international standards and good practices. The AQR would determine possible shortfalls in the recognition of losses as well as the resulting shortfalls in capital levels. Where applicable, this would allow BoG to request banks to submit recapitalization plans and develop strategies to reduce NPLs, ultimately contributing to the overall stability of the financial sector. The AQR would also be key to strengthen confidence in numbers published by the banking system and authorities' responses to actual weaknesses.
- **Independent due diligence of each bank and SDI** by qualified firms to ensure that all markdowns and losses have been adequately booked at the time of accessing Fund A1.
- **Upgrade of GDPC's depositor payout system.** GDPC's core application ('the Integrator') lacks key modules, including the data quality assessment module, claims and complaints administration, client and administration portal, and data warehouse module. The deployment of these modules would ensure data quality and enable a swift depositor payout. Consulting services will be procured to review the existing system, develop technical specifications for the upgrade, complete the upgrade, and train staff (including through payout simulation exercises). Procurement of basic IT hardware may also be contemplated based on the system's review outcomes.
- **Upgrade/establishment of beneficiary banks' and SDIs' ESMSs** to fully meet World Bank requirements, including climate and disaster risks screening of subprojects on an ongoing basis to ensure lending and investment activities are resilient to climate change impacts (adaptation) and contribute to Ghana's effort to reduce greenhouse gas (GHG) emissions (mitigation).
- **Where needed, additional technical assistance to BoG and GDPC** to address any emerging financial stability risks.

**Component 3: Project Management, Monitoring and Evaluation (US$5 million)**

46. **This component will cover project implementation costs**, including the compensation of an investment advisory firm, capacity building of FSD staff, coordination, procurement, financial management (FM), M&E, and other related costs. Specifically, it will cover consultants' salaries and related expenses, operational costs, implementation of the Stakeholder Engagement Plan (SEP), data collection for M&E, and other project implementation expenses. Stakeholder engagement will entail the completion of annual surveys of beneficiaries (mainly banks and SDIs) to assess their satisfaction with the solvency support and technical assistance provided under the project and share lessons learned.

### C. Project Beneficiaries

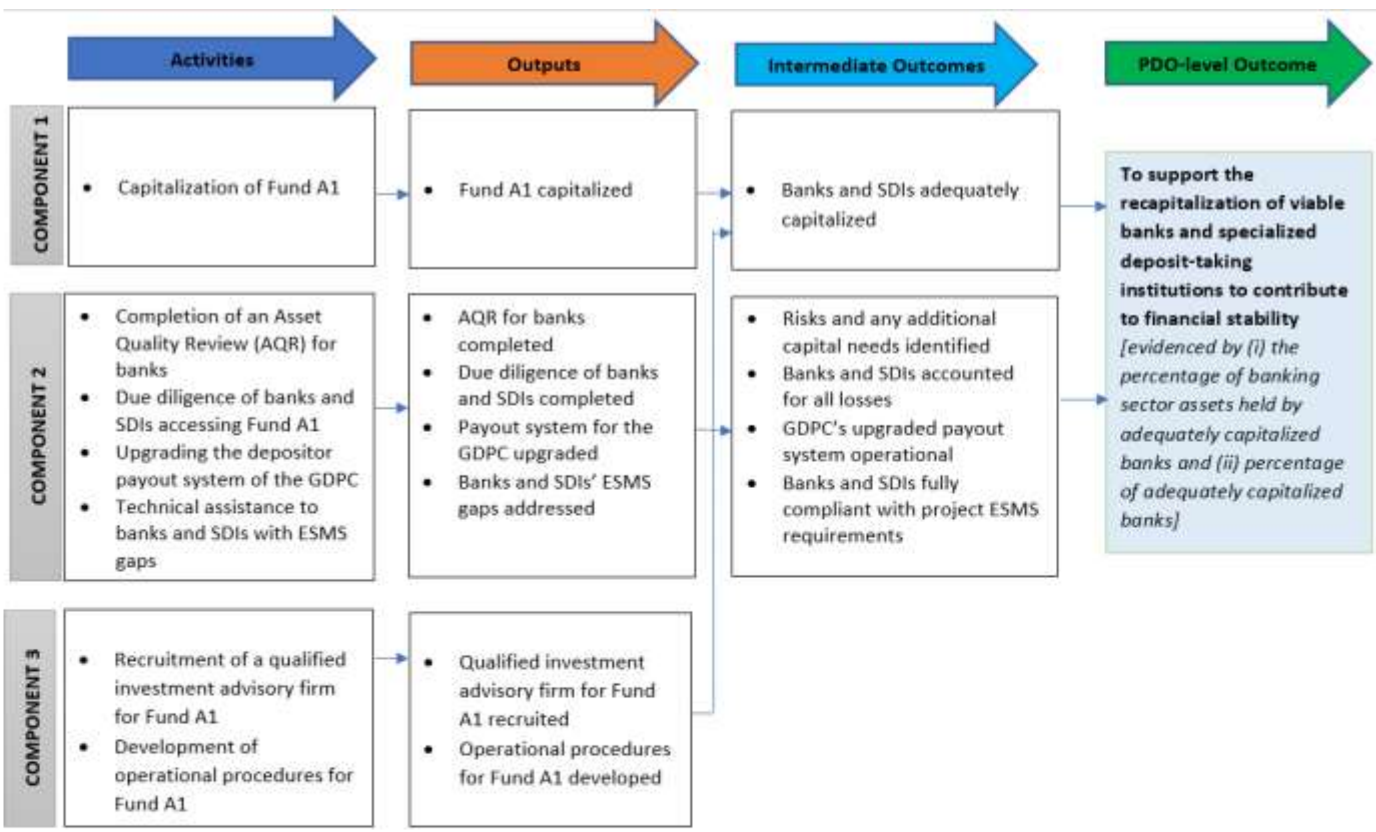
47. **The primary beneficiaries of the project are eligible banks and SDIs whose solvency has been impaired by the DDEP but are viable.** Through direct support to banks and SDIs, the project will ultimately benefit the following subgroups and Ghana's financial sector and economy:

- **Depositors and other financial consumers** that will continue to have access to savings, payments, and other core financial services provided by adequately capitalized banks and SDIs.
- **Economic growth and productivity.** The project supports financial stability, a critical public good that will benefit the broader financial sector and the economy. Given the dominance and importance of the banking sector, its stability is key to overall financial stability, which in turn is required for the provision of credit to firms and households as well as for economic growth.
- **BoG and GDPC,** two institutions that will receive technical assistance and capacity building under Component 2 to enhance their ability to support financial stability.

### D. Results Chain

48. **Figure 4 provides a visual depiction of the Theory of Change underpinning the project.**

**Figure 4. Project Results Chain**



## E. Rationale for World Bank Involvement and Role of Partners

49. **Financial stability is a public good and therefore there is a strong rationale for the World Bank to contribute to its provision in Ghana.** By supporting the recapitalization of viable banks and SDIs, the project contributes to the protection of depositors, the financial sector, and the economy and to a reduced likelihood of the high costs associated with a financial crisis. As noted in section IV.D, such costs tend to have a disproportionate negative impact on the vulnerable segments of society, including women and the poor.

50. **The project is a culmination of an intense dialogue between the GoG, the IMF, and the World Bank on how to assess the impact of the DDEP on the financial sector and mitigate its impacts.** Additionally, the World Bank, in collaboration with the IMF, consulted closely with the GoG on the development of FSSS and the design of the GFSF. Moreover, the project builds on World Bank experience in helping Recipient countries manage financial crisis, including during the Global Financial Crisis. Finally, the project leverages seven years of the World Bank's engagement with BoG on bank resolution and crisis management, which culminated with the liquidation by BoG of more than 400 SDIs and the establishment of Ghana's Financial Stability Council and BoG's Resolution Office.

51. **Three other development partners are directly supporting government efforts to restore financial stability.** Through its ECF, the IMF supports reforms to restore macroeconomic stability and debt sustainability as well as spur growth. It also supports specific financial sector measures such as the approval of banks' recapitalization plans by BoG (completed in September 2023), implementation by BoG of corrective measures against banks that fail to uphold annual recapitalization targets, and development and implementation of a strategy to address NIB's solvency challenges. The AfDB has approved a Budget Support Operation which supports, among other reforms, improved domestic revenue mobilization and financial sector development, including the development of an Insurance Sector Strengthening Strategy and a Climate Financing Strategy. Finally, the FCDO of the United Kingdom Government supported the development of the GFSF's Operational Framework.

## F. Lessons Learned and Reflected in the Project Design

52. **Acting preemptively and avoiding bailouts is key to preserving financial stability at lowest cost.** Early interventions to prevent or lessen the impact of a financial crisis are associated with the low cost of the overall crisis. This is particularly the case if interventions seek to minimize moral hazard and bailouts by requiring owners to share the burden. In this context, the project supports the recapitalization of the banking system to help it withstand shocks. To limit moral hazard, shareholders are required to share the burden by contributing new capital and to bear losses before the MoF/GoG. Moreover, support is limited to viable banks and SDIs.

53. **Sequencing and focus on financial sector vulnerabilities and immediate needs.** A key criticism from the Independent Evaluation Group's (IEG) evaluation of the WBG's response to the Global Financial Crisis[23] is that financial sector and fiscal management operations had limited short-term crisis-response policy content and were based on areas that lent themselves to swift preparation, often through prior or ongoing engagement. This project takes this finding into account, tailoring its design and content to the immediate solvency challenges imposed by the DDEP. The project's priority is to address immediate solvency needs while supporting the authorities (through the DPF series) to prepare for the resolution of nonviable institutions (including legacy issues), including through the amendment of the GDPC's Act and capitalization of GDPF.

54. **Strong Recipient ownership and commitment is indispensable.** Therefore, project preparation was contingent

[23] https://documents1.worldbank.org/curated/en/196221468147556098/pdf/668410corrigen0C0disclosed020210120.pdf

on the development of the FSSS by the Government to restore financial stability following the DDEP. All the interventions supported under this project are part of the FSSS. Additionally, the Government is contributing its own resources toward the capitalization of Fund A2 of the GFSF, without which the impact of the AT1 financed by this project would be limited.

55. **Analytical work is key to informing the design of lending operations.** The project design is informed by multiple assessments conducted by BoG and World Bank staff. These assessments informed the estimation of capitalization needs and calibration of proposed support. The type and scope of the analytical work was tailored to the evolving nature of the DDEP's shock on the financial sector. Instead of producing traditional Advisory Services and Analytics (ASA) reports, the World Bank team opted for short and just-in-time analysis and presentations outlining impacts and solutions at specific points in time.

## III. IMPLEMENTATION ARRANGEMENTS

### A. Institutional and Implementation Arrangements

56. **The MoF —through its FSD—will have the institutional responsibility for coordination and management of the project**. It will be responsible for the procurement of goods and consulting and non-consulting services, FM, reporting, and M&E. Specifically, the project will be managed by the FSD Project Implementation Unit (PIU) overseeing the GFSDP (P161787) and the GDFP (P169742). The PIU comprises FSD staff and three consultants—a project coordinator, a procurement specialist, and an M&E specialist. The Director of the FSD will be the project director and day-to-day supervisor of the implementation of the project.

57. **The FSD (Fund A1 Secretariat) will implement Component 1 under the oversight of the GFSF Investment Committee.** It will be supported by a qualified investment advisory firm. The FSD/MoF will also be responsible for the implementation of Components 2 and 3, working with BoG and the GDPC as technical leads. As detailed in annex 1, a Project Coordination Committee (PCC) will be established to ensure effective interagency coordination, particularly at the initial stage of project implementation.

### B. Results Monitoring and Evaluation Arrangements

58. **Project M&E will be the responsibility of the MoF/FSD, working closely with the investment advisory firm, BoG, and the GDPC.** M&E will be carried out using the Results Framework presented in section VII, which includes PDO and intermediate indicators. With input from the Secretariat, BoG, and the GDPC, the MoF will prepare half-yearly monitoring reports. Feedback from project beneficiaries (mainly banks and SDIs) will be collected through annual surveys to be financed by the project and the results shared with all key stakeholders. A mid-term review will take place approximately 24 months into project implementation to further assess progress and incorporate lessons learned. An Implementation Completion and Results Report (ICR) will be prepared upon the completion of the project.

59. **The performance of Fund A1 will be closely monitored throughout project implementation.** The MoF/FSD will prepare half-yearly unaudited financial statements, half-yearly and annual management reports, and annual audited financial statements (part of the overall project audit). The management reports should include information on Fund A1's subscriptions of AT1 instruments and key performance indicators of supported banks and SDIs. As noted in section II.B, the MoF, BoG, and the World Bank will periodically examine whether any unused funds in Fund A1 should be cancelled or reallocated.

### C. Sustainability

60. **Interventions supported by this project are expected to be sustainable.** Support under Component 1 will focus on viable banks and SDIs which are expected to operate without the need for continued government support. Additionally, the required contribution by existing or new shareholders reduces moral hazard and demonstrates shareholders' commitment to their institutions going forward. The Ghanaian economy is expected to recover and offer opportunities for supported banks to grow and operate without government assistance, which for many banks only became necessary because of the DDEP. As outlined in the FSSS, the GoG, in consultation with BoG, plans to undertake the necessary structural reforms to improve the profitability of state-owned banks, promote their viability, ensure value for money, and facilitate an orderly government exit. Among other measures, the GoG will undertake a detailed review of the governance, business models, risk management system of state-owned banks and implement necessary reforms over the next three years to ensure that new capital is conserved and deployed to grow the banks' balance sheets on a sustainable basis. Component 2 supports the GDPC upgrade of its depositor payout system. This system will enable the GDPC to execute deposit payouts more efficiently. The GDPC has sufficient income to cover its operations, including the maintenance costs of the new system. Finally, banks and SDIs will receive technical assistance to upgrade their ESMSs. The benefits of this technical assistance will transcend these institutions' access to solvency support. It will enable them to access other funding opportunities to expand their businesses while contributing to E&S sustainability.

## IV. PROJECT APPRAISAL SUMMARY

### A. Technical, Economic and Financial Analysis

61. **The technical design of the operation, in particular the provision of support through the AT1 instrument under strict eligibility criteria, is based on the careful consideration of a range of factors.** The financial instrument chosen to deliver capital support, AT1 securities, is consistent with Basel III standards which were transposed into BoG regulation. AT1 instruments do not dilute shareholders' rights, a feature that is strongly valued by the banks consulted. The calibration of the required minimum CET1 threshold for accessing Fund A1 reflects international practices. The requirement to bring new capital to access Fund A1 also seeks to reduce moral hazard, better protect the MoF, and demonstrate shareholders' continued commitment to support their banks going forward. The MoF was made aware of the risks embedded in the AT1 instrument, which would materialize if the instrument is written off due to deterioration of banks' solvency (for example, due to new losses).

62. **There are potentially substantial economic benefits associated with the success of this project.** International experiences and Ghana's own history with banking crisis show how costly they could be in terms of output losses, surge in public debt, and duration when they occur jointly with fiscal crisis. For example, the fiscal cost and output losses of Ghana's 1982–83 crisis were 6 percent and 45 percent, respectively. By strengthening the capital positions of banks and SDIs as well as their ability to withstand shocks, the project—along with the IMF's ECF and the World Bank's DPF series—seeks to lower the likelihood that existing macro-fiscal challenges are amplified by stress in the financial system. By helping strengthen banks, the project also reduces the likelihood of an acute downward spiral in credit provision that could damage already subdued economic growth prospects. Furthermore, preserving the stability of the banking and SDIs sectors would help protect depositors' savings and the availability of other core financial services for millions of low-income households. On balance, the benefits of lowering the likelihood of incurring such substantial costs outweigh the cost of this project.

63. **The project is aligned with the adaptation and mitigation goals of the Paris Agreement.**

- **Assessment and reduction of adaptation risks.** As mentioned in paragraph 6, the main climate risks are sea level rise, flooding, and increasing temperatures. The capacity of banks and SDIs is bolstered through technical assistance to enhance their risk assessment and management practices, ensuring thorough due diligence and screening for climate-related risks. The project envisages managing and reducing these risks through technical assistance to banks and SDIs to enhance their E&S risk management frameworks. This approach ensures that banks and SDIs are better equipped to handle the challenges posed by climate change while aligning with best practices and the goals of Ghana's NDC.

- **Assessment and reduction of mitigation risks.** The project's activities pose low risks due to their focus on strengthening the resilience and stability of the financial sector and promoting sustainable banking. These activities will not lead to a significant increase in GHG emissions or any form of carbon lock-in. Additionally, the project will work with the MoF to ensure that beneficiary financial institutions do not approve any new financial commitments toward activities on the list of universally non-aligned activities (particularly coal and peat) and obligate them to reduce their exposure to these activities to zero over time.

64. **The financial intermediary financing (FIF) assessment (annex 3) shows that the project is in line with World Bank's Investment Project Financing (IPF) FIF guideline.** Unlike a traditional FIF with an LoC, which requires a conducive macroeconomic environment and the soundness of the financial sector (for example, adequate capitalization and low NPLs), this project is motivated by the macroeconomic and banking sector vulnerabilities discussed in section I. Therefore, instead of focusing on the adequacy of the macroeconomic environment and banking sector soundness, the assessment focused on the proposed pricing of the AT1 securities and associated subsidies. Compared to prevailing interest rates, the proposed pricing entails a subsidy, which is needed to encourage banks to bring shareholder capital and contribute to financial stability. The subsidy can be considered the least cost way of achieving the project development's objective compared to the fiscal and output costs of letting viable institutions undercapitalize or fail. However, as the macroeconomic environment improves and interest rates decline, the subsidy element is expected to decline considerably. Consistent with the IPF FIF guideline, the subsidies are transparent, fiscally accounted for and sustainable, time-bound, and are not expected to hinder competition.

## B. Fiduciary

### (i) Financial Management

65. **Consistent with the guidelines as per World Bank Policy and Directive for IPF, an FM assessment was conducted at the Finance and Account Unit of the MoF.** The MoF is the default lead implementing agency for the project, and activities will be coordinated by the PIU of the FSD.

66. **As documented in annex 1, the MoF/FSD's FM arrangements satisfy the World Bank's minimum requirements under IPF Policy and Directive; FM risk is rated Moderate.** The reasons include, among others, that the MoF/FSD through its Project Financial Management Unit (PFMU) is currently providing FM support to IDA-funded projects: GFSDP (P161787), GDFP (P169742), GETP (P166539), and GJSP (P166996). These have been effectively implemented without significant internal control lapses or fiduciary weaknesses. The PFMU has an adequate number of staff with varying skills and understanding of IDA fiduciary requirements.

67. **The Director of Accounts of the MoF, a qualified chartered accountant with the requisite years of experience, will have overall fiduciary responsibility for all FM aspects of the project.** The routine daily transactional processing and reporting will be assigned to a dedicated project accountant in the capacity of senior accountant of the ministry—a staff

of Controller and Accountant General Department (CAGD) and part of the PFMU—and supported by a team of other junior staff to ensure adequate segregation of duties. The project accountant will ensure that, throughout project implementation, there are adequate FM systems in place which can report adequately on the use of project funds as well as ensure that these are used for the intended purposes and in line with the PDO. To ensure effective workload balance and adequate project implementation, the World Bank recommends that, no later than 90 days after effectiveness of this project, the Recipient strengthen the Accounting Unit by seconding an additional project accountant who will be solely responsible for the FM aspects of project implementation and report functionally to the Director of Accounts of the MoF.

68. **Based on the risk rating of the project and the current FM arrangements, project implementation will be monitored closely.** The World Bank will complete four quarterly on-site visits during the first year of project implementation to ascertain the adequacy of the systems. The visits will be supplemented by desk reviews of the interim financial reports (IFRs) and audit reports. The objectives of the FM supervision missions will include ensuring that strong FM systems are maintained throughout the project's tenure. In adopting a risk-based approach to FM supervision, the key risk areas of focus will include assessing the accuracy and reasonableness of budgets, their predictability and execution, compliance with payment and fund disbursement arrangements, and the ability of the systems to generate reliable financial reports.

69. **Advances and documentation of expenditures under Component 1 will be as follows**: (a) requests for advances to Fund A1 will be accompanied by a six-month forecast of capital support needs of banks and SDIs, drafted by the MoF's Secretariat for Fund A1 and approved by the Investment Committee and the Director of MoF's FSD and (b) documentation of eligible capital support payments will be accompanied by (i) a statement of disbursements to eligible banks and SDIs, signed by the Director of MoF's FSD, as well bank statements evidencing the transfer of funds to banks and SDIs; and (ii) details of eligible capital support payment, to be included in the IFR. Advances to Fund A1 are not considered eligible expenditures. Documentation will only occur once the eligible banks and SDIs have received the capital support payments. At project closing date, any undocumented capital support payments will be refunded to the World Bank. Fund A1's last disbursement date to banks and SDIs will be the project's closing date.

**(ii) Procurement**

70. **Procurement under this project will follow World Bank procurement regulations, guidelines, and standard documents.** Specifically, it will be in accordance with the World Bank's 'Procurement Regulations for IPF Borrowers' (Procurement Regulations), 5th Edition, dated September 2023; 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', dated July 1, 2016; and other provisions stipulated in the Financing Agreements. Accordingly, the World Bank's Standard Procurement Documents for the international market approach, with relevant modifications for the national market approach, as well as any enhancements to address environment, social, health, and safety (ESHS) issues including gender-based violence (GBV), sexual exploitation and abuse (SEA), and sexual harassment (SH) will be used.

71. **The Procurement Plan for the first 18 months has been prepared and will be uploaded in the Systematic Tracking of Exchanges in Procurement (STEP) tool.** The plan will be based on the Project Procurement Strategy for Development (PPSD) agreed upon at negotiations, and it will be updated as and when required. STEP will be the primary platform for submitting, reviewing, and clearing all Procurement Plans and prior review procurement activities. Also, project procurement risk ratings and performance assessments will be undertaken using the World Bank Procurement Risk Assessment and Management System (PRAMS).

72. **The PPSD summary indicates that the operational context for the procurement under the project is favorable.** Political, sustainability, and technological parameters are encouraging, given that there is political stability in the country

with relatively good security as well as technological infrastructure. Relevant safeguard instruments will be developed to address all sustainability issues as assessed and identified. The economic terrain is, however, not favorable due to the recent high inflation and depreciation of the Ghana Cedi, which could affect market predictability and pricing. To mitigate this risk, price adjustment provisions will be included in all contracts, irrespective of the duration, value, and complexity, to cater for local price fluctuations due to any unanticipated microeconomic challenges. In addition, it is expected that the macroeconomic reforms being pursued by the GoG, especially under the IMF program and World Bank DPF series, will help improve the procurement environment to make it more competitive and realistic and facilitate the achievement of value for money.

73. **The number of procurement activities of the project is expected to be minimal.** Therefore, the procurement consultant of the GDFP (P169742), under implementation by the MoF/FSD, will also be responsible for this proposed project.

74. **The inherent procurement risk is assessed as Substantial.** This risk rating reflects the weaknesses demonstrated by the FSD/MoF in the implementation of the GFSDP (P161787) and GDFP (P169742), including (a) delays in the preparation of terms of reference and technical specifications; (b) weak contract management and inadequate filing and recordkeeping; and (c) procurement delays, especially evaluations and Entity Tender Committee (ETC) and Central Tender Review Committee (CTRC) approvals.

75. **The project proposes the following three procurement risk mitigation strategies:** (a) adequate procurement planning to fit the meeting schedules of ETC and CTRC; (b) close World Bank support and supervision in preparing the terms of reference and technical specifications for early commencement of the procurement processes; and (c) contract management support and supervision of filing as well as recordkeeping. The residual procurement risk after implementation of these mitigation measures is assessed as **Moderate**.

### C. Legal Operational Policies

| Legal Operational Policies | **Triggered?** |
|---|---|
| Projects on International Waterways OP 7.50 | No |
| Projects in Disputed Area OP 7.60 | No |

### D. Environmental and Social

76. **Overall E&S risk of the project is Substantial.**

- **The project anticipates substantial environmental risks.** These risks are mainly indirect since the banks and SDIs will use the funds for various purposes, and the project’s funds will not be segregated from their other sources of funding. The indirect potential impacts would be from subprojects/portfolios of the eligible banks and SDIs. Therefore, the World Bank’s environmental risk management requirements apply to the entire portfolio of banks and SDIs. The assessment of environmental risk associated with lending will be done through banks’ and SDIs’ own E&S risk management procedures. Activities or operations of borrowers, including individuals and micro, small, and medium enterprises (MSMEs) in sectors such as agriculture, wholesale/retail, manufacturing, and services, may pose direct or indirect environmental risks. For agriculture, this includes issues such as erosion, land degradation, habitat disturbance, pollution, and health hazards due to pesticide use. Manufacturing operations may entail pollution, waste generation, occupational safety risks, and unsustainable resource use.

- **The project faces substantial social risks.** Supporting undercapitalized banks and SDIs can lead to misunderstandings and confusion among stakeholders, particularly as some stakeholders face economic hardship. The MoF has prepared an SEP[24] that provides clear information to stakeholders, including the public, regulators, and financial institutions, about the project's objectives and processes. Banks' and SDIs' borrowers, including individuals and MSMEs in agriculture, wholesale/retail, manufacturing, and services sectors, may pose direct or indirect social risks. These risks include disruptions in livelihoods, social tensions, labor issues such as poor working conditions and child labor, health risks from chemical exposure in agriculture, conflicts over resources such as water, impacts on cultural heritage and traditions, gender and income inequality, lack of inclusion, insufficient community engagement, and weak grievance management systems.

77. **SEA and SH risks is rated low for the project using the World Bank SEA/SH risks screening tool.** However, funds from Fund A1 will not be ring-fenced or segregated from the beneficiary banks and SDIs' other funding sources and operations, therefore presenting potential SEA/SH risks due to the unknown scope and nature of end use of project funds. The MoF will prepare an SEA/SH Action Plan as part of its ESMS and will require beneficiary banks and SDIs to develop an SEA/SH Action Plan with workers' Code of Conduct as part of their own ESMSs.

78. **Assessment and management of E&S risks and impacts.** The Appraisal Environmental and Social Review Summary (ESRS) and the Environmental and Social Commitment Plan[25] have been prepared and disclosed in March 2023. The integration of E&S risk management measures into the activities of the MoF and beneficiaries of Fund A1 will be governed by ESS 9. ESS 9 requires the MoF and the beneficiary financial institutions to establish and maintain effective E&S policies, systems, procedure, and capacity for assessing, managing, and monitoring risks and impacts of subprojects as well as managing overall portfolio risk in a responsible manner, through an ESMS. The ESMSs will include (a) an E&S policy; (b) clearly defined procedures for the identification, assessment, and management of the E&S risks and impacts of subprojects; (c) organizational capacity and competency; (d) monitoring and review of E&S risks of banks and SDIs and their portfolios; and (e) external communications mechanism.

79. **ESMS for MoF.** The MoF will establish an ESMS consistent with ESS 9. The MoF has already commissioned an international consulting firm with vast experience working in Ghana to develop the ESMS. The terms of reference for the assignment have been reviewed and approved by the World Bank. The World Bank will review the ESMS before disclosure of its elements. The review will ensure the MoF can mainstream an integrated climate and disaster risk identification, screening, monitoring, and management into the project's activities on an ongoing basis to enhance resilience and sustainability. Additionally, the MoF will retain E&S specialist(s) (the same specialists to be provided by the investment advisory firm) for the implementation of the ESMS. Both the preparation of the ESMS and disclosure of its summary and the retention of an E&S specialist(s) are disbursement conditions for Category 1/Component 1. The MoF will periodically review the effectiveness of the ESMS and adjust it as needed in a manner acceptable to the World Bank.

80. **ESMS for banks and SDIs.** The MoF will require beneficiary banks and SDIs to establish effective ESMSs to evaluate, categorize, mitigate, and manage social and environmental risks, especially in lending to clients. The project will offer technical assistance and capacity building to eligible banks and SDIs to establish ESMS policies and procedures.

[24] The Ministry of Finance disclosed the Stakeholder Engagement Plan (SEP) in September 2024. The document can be accessed via: https://mofep.gov.gh/sites/default/files/adverts/Stakeholder-Engagement-Plan.pdf. It was also made available on the World Bank intranet on March 7, 2024.
[25] https://www.mofep.gov.gh/sites/default/files/adverts/Environmental-and-Social-Commitment-Plan.pdf.

Additionally, it will equip loan officers with the essential skills for screening and identifying risks including those related to climate change and disasters. Integrating climate and disaster risk elements into the ESMS is to ensure that lending and investment activities are resilient to climate change impacts (adaptation) and contribute to Ghana's effort to reduce GHG emissions (mitigation). Adequate ESMS will be a condition of eligibility for the banks and SDIs. To receive support from the project, banks and SDIs identified to have inadequate ESMS would be required to use the project's ESMS checklists to be provided by the MoF for loan screening. This interim measure will be in place until they fully develop and implement their ESMS within six months after receiving support. The ESMS will require the banks and SDIs to screen against an exclusion list that will be prepared and included in the PIM. Banks and SDIs will utilize a rigorous screening process to identify and flag projects with potential high E&S risks within their portfolios. Such projects will undergo thorough assessment and scrutiny that will be consistent with ESS 9 requirements. Additionally, the project will implement robust measures to manage and mitigate potential risks, ensuring adherence to environmental regulations and fostering responsible and sustainable project outcomes. The ESMS will incorporate templates designed to facilitate regular reporting to the MoF and the World Bank on a semiannual basis. These reporting templates will provide insights into the E&S profile and risks associated with the banks' and SDIs' portfolios.

81. **Gender and social issues.** As noted in section I.C, women own most of the deposit accounts in SDIs. Additionally, small depositors with account balances of less than GHS 500 (US$43) account for 80 percent of total depositors in Ghana. Moreover, financial crises have negative effects on the social and economic well-being of households, particularly the poor.[26] The effects depend on the severity of the crisis and can be transmitted through four channels: (a) credit market shocks through plummeting financial markets; (b) income and employment shocks through the weakened labor market; (c) relative price changes through product markets; and (d) education, health, and social protection shocks through reduced government services. By supporting the recapitalization of viable banks and SDIs, the project contributes to financial stability and the reduction of the likelihood of a financial crisis, thereby protecting women, small savers, and vulnerable households that often lack economic means to bounce back from economic shocks. The project will monitor how support to banks' and SDIs' recapitalization protects the savings of women by tracking the share of women deposit accounts in well-capitalized banks.

82. **Climate change**. The project supports climate mitigation and adaptation efforts by strengthening the capital positions of banks and SDIs, which would enable them to mobilize and redirect finance toward low-carbon and climate-resilient investments. Moreover, Component 2 will provide targeted technical assistance to banks and SDIs to help them upgrade their ESMS. The enhanced ESMS will improve banks' and SDIs' risk assessment and management practices, particularly in relation to potential climate-related risks to ensure that lending and investment activities are resilient to climate change impacts (adaptation) and contribute to Ghana's effort to reduce GHG emissions (mitigation). Furthermore, by enhancing their ability to evaluate and manage these risks, banks and SDIs can more confidently invest in and lend to projects that support climate mitigation and adaptation.

83. **Citizen engagement.** As noted earlier, the MoF has developed an SEP to guide its communication, active consultation, and engagement with stakeholders during project implementation, building on consultations carried out during project preparation. Feedback from these consultations and engagements will be used to improve project implementation, including, if necessary, through project restructuring. After the start of implementation, the project will carry out a satisfactions survey with project beneficiaries. Survey respondents will include staff of banks and SDIs that received financial support from Fund A1 or technical assistance to upgrade their ESMSs as well as staff of the GDPC using the upgraded depositor payout system. The survey will be completed annually to assess the beneficiaries' satisfaction with the financial and nonfinancial support provided as well as to capture lessons learned. The survey will be coordinated by

[26] Independent Evaluation Group. 2012. "The World Bank Group's Response to the Global Economic Crisis: Phase 2." World Bank Group, Washington, DC. http://hdl.handle.net/10986/21340.

the MoF/FSD, with technical inputs from the investment advisory firm, BoG, and the GDPC. The project will close the feedback loop by analyzing and using the feedback captured through the surveys to strengthen and calibrate implementation. The results of the survey will be summarized in a report and publicly disclosed by the MoF. Moreover, the project's grievance mechanism will allow the project to respond to project-related queries or clarifications, resolve problems with implementation, and address any grievances in an effective manner.

## V. GRIEVANCE REDRESS SERVICES

84. **Grievance redress.** Communities and individuals who believe that they are adversely affected by a project supported by the World Bank may submit complaints to existing project-level grievance mechanisms or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), visit http://www.worldbank.org/GRS. For information on how to submit complaints to the Bank's Accountability Mechanism, visit https://accountability.worldbank.org.

## VI. KEY RISKS

85. **Overall risk of the project is Substantial.** Macroeconomic risk is High, while political and governance risk, sector strategies and policies risk, technical design risk, institutional capacity for implementation and sustainability risk, stakeholders risk, and E&S risks are Substantial.

86. **Political and governance risk is Substantial**. Ghana is a mature democracy and a haven of stability in a troubled region. However, the national elections scheduled for end-2024 could lead to policy slippages or reversals as well as expenditure overruns. This could reduce the Government's support to the financial sector, particularly the availability of funding for the cleanup of legacy institutions, to further resource Fund A2 if additional CET1 capital needs arise, and to take other actions that may be needed to preserve financial stability. To mitigate this risk, the Government has already earmarked part of the funding (about US$348 million in 2024) for legacy issues. In addition, under the FSSS and the IMF program, the Government publicly committed to complete the recapitalization of the banking sector by end of 2025.

87. **Macroeconomic risk is High.** Deterioration of the macroeconomic environment (mainly high inflation and interest rates) would increase banks' and SDIs' NPLs and limit opportunities for them to make profits and build internal capital. It could also reduce the shareholders' incentive to bring new capital. Taken together, these could deteriorate banks' and SDIs' soundness and overall financial stability. The DPF series and the IMF-ECF are the two main mitigants of this risk—both support reforms that are expected to improve the macroeconomic environment and enable financial institutions to operate profitably and generate internal capital. In fact, economic conditions have improved over the course of 2023, despite the challenging outlook. Nevertheless, the residual risk is high because the path toward macroeconomic stability leaves little margin for policy slippages and external shocks that would affect economic growth.

88. **Sector strategies and policies risk is Substantial.** The Government has outlined a strategy to safeguard financial stability post DDEP, including a requirement for banks to develop and implement recapitalization plans. However, the well-intended regulatory reliefs granted by BoG may reduce immediate demand for support under Fund A1, particularly

among institutions that plan to recapitalize through retained earnings.[27] To mitigate this risk, the interest by undercapitalized banks to grow their business—including by holding more risky assets such as loans—is expected to encourage them to front-load their recapitalization efforts, thereby seeking support from this project.[28] Moreover, other banks would be expected to tap project support if their solvency situation deteriorates due to unaccounted losses or they cannot execute their recapitalization plans as expected. Even without full utilization, Fund A1 would contribute to building confidence in the ability of the authorities to respond to stress in the banking sector if needed.

89. **Technical design of the project risk is Substantial**. The project uses an AT1 instrument that is relatively new and has not previously been used in a World Bank lending operation. It presents risks that the MoF could lose funds if beneficiary banks reach the CET1 level trigger for the cancellation of the AT1 instrument to absorb losses. However, this risk is mitigated through the rigorous entry criteria defined for Fund A1, including the need for beneficiary banks to have a capital buffer above the trigger point and to undergo an independent due diligence to ensure that there are no hidden losses. Although new, this design does not present significant risks to the achievement of the PDO, which aims for 90 percent of banks to be adequately capitalized and 95 percent of the assets of the banking sector to be held by well-capitalized banks. Nevertheless, the risk is rated Substantial because uncertainty remains over the impact of high and increasing NPLs and challenging macroeconomic environment on the banking sector. Additionally, experience is limited with this instrument in such a volatile environment.

90. **Institutional capacity for implementation and sustainability risk is Substantial**. The successful implementation of the project requires the resourcing of the FSD (Fund A1 Secretariat) to effectively manage Fund A1. Without the requisite capacity, the Secretariat would face challenges to establish the necessary procedures for the management of Fund A as well as to quickly review applications, order due diligences of banks and SDIs, and make recommendations to the Investment Committee. As noted in section III.A, the Secretariat will be strengthened through the competitive recruitment of a qualified investment advisory firm. Additionally, the project (under Component 3) will build the capacity of FSD staff to manage Fund A1. Strong focus on viability as part of the eligibility criteria is expected to reduce the sustainability risk, by ensuring that the project only supports institutions with prospects to remain solvent and provide core financial services to the economy well beyond the closure of this project.

91. **Stakeholders risk is Substantial.** Some stakeholders may question why taxpayers should bear the consequences of the DDEP on banks and SDIs. To address this concern, the Government developed an SEP to guide its engagement with the public, focusing on the benefits of financial stability for the economy, including highlighting the fact that about 60 percent of the Ghanaian population has financial accounts (including mobile money) and therefore stands to benefit from continued availability of core financial services. The communication will also emphasize that the project is not bailing out banks and SDIs but rather using AT1 instrument to complement shareholder contributions. While the GFSF is broadly considered a welcome intervention to safeguard the stability of the financial sector, a member of Parliament challenged the constitutionality of the GFSF and the legality of its Operational Framework, arguing that it should have been established by an Act of Parliament. To mitigate this risk, on April 29, 2024, the Attorney General issued a legal opinion, satisfactory to the World Bank, confirming the constitutionality of the GFSF and its Operational Framework.

92. **Environmental and social risks are rated high.** Assessment of environment and social risk as well as proposed risk mitigation measures are provided in Section D above.

[27] As noted, for capital adequacy computation purposes, banks are required to recognize each year (starting in FY22 through FY25) only one-quarter of their DDEP-related impairment losses. They are also required to inject one-third of the capital each year from 2023 through 2025 to restore the minimum CAR of 13 percent by end of 2025.
[28] Banks are required to hold minimum capital of 13 percent of their RWAs. Therefore, they need to increase capital if they increase RWAs.

## VII. RESULTS FRAMEWORK AND MONITORING

### PDO Indicators by PDO Outcomes

| Baseline | Period 1 | Closing Period |
|---|---|---|
| **Improved Financial Stability** | | |
| **Banking sector assets held by adequately capitalized banks (without regulatory relief) (Percentage)** | | |
| Dec/2022 | Jun/2026 | Jun/2028 |
| 31 | 80 | 95 |
| **Banks adequately capitalized (without regulatory relief) (Percentage)** | | |
| Dec/2022 | Jun/2026 | Jun/2028 |
| 43 | 85 | 90 |

### Intermediate Indicators by Components

| Baseline | Period 1 | Closing Period |
|---|---|---|
| **Capitalization of Fund A1 of Ghana Financial Stability Fund** | | |
| **New external capital raised by banks and SDIs which receive support from Fund A1 (Amount(USD))** | | |
| Dec/2022 | Jun/2026 | Jun/2028 |
| 0 | 426000000 | 665000000 |
| ➢Of which from private sector shareholders (Amount(USD)) | | |
| Dec/2022 | Jun/2026 | Jun/2028 |
| 0 | 107000000 | 186000000 |
| **Additional Tier 1 securities issued by banks and SDIs and acquired by Fund A1 (Amount(USD))** | | |
| Dec/2023 | Dec/2026 | Jun/2028 |
| 0 | 101000000 | 220000000 |
| **Bank credit held by adequately capitalized banks (Percentage)** | | |
| Dec/2022 | Jun/2026 | Dec/2028 |
| 29 | 80 | 95 |
| **Women deposit accounts in adequately capitalized banks (Percentage)** | | |
| Dec/2023 | Jun/2026 | Jun/2028 |

| | | |
|---|---|---|
| 26 | 75 | 90 |
| **Technical Assistance** | | |
| **AQR of banks completed (where applicable (Text)** | | |
| Dec/2023 | Jun/2026 | Jun/2028 |
| No AQR | AQR initiated | AQR completed |
| **All banks and SDIs with ESMS gaps when they receive support from Fund A1 have received capacity building to address such gaps (Text)** | | |
| Dec/2023 | Jun/2026 | Jun/2028 |
| No ESMS gaps identified | Capacity building ongoing | Capacity building provided to address ESMS gaps |
| **Payout system of the GDPC upgraded (Text)** | | |
| Dec/2023 | Jun/2026 | Jun/2028 |
| System has gaps | System designed and undergoing testing | System upgraded |
| **Project Management, Monitoring and Evaluation** | | |
| **Beneficiaries satisfied with project-delivered services/support (Percentage)** | | |
| Dec/2023 | Jun/2026 | Jun/2028 |
| 0 | 60 | 80 |

## Monitoring & Evaluation Plan: PDO Indicators by PDO Outcomes

| Improved Financial Stability to Enable Provision of Credit | |
|---|---|
| **Bank assets held by adequately capitalized banks (without regukatory relief) (Percentage)** | |
| Description | Adequately capitalized banks (on solo basis) are banks that meet the minimum capital adequacy ratio of 13 percent, without considering any regulatory reliefs. The indicator will be calculated as the amount of assets held by adequately capitalized banks divided by the total bank assets times 100. |
| Frequency | Semiannually (end-June and end-December) |
| Data source | BoG prudential returns |
| Methodology for Data Collection | MoF/FSD to request data from BoG |
| Responsibility for Data Collection | MoF/FSD |
| **Banks adequately capitalized (without regukatory relief) (Percentage)** | |
| Description | Adequately capitalized banks (on solo basis) are banks that meet the minimum capital adequacy ratio of 13 percent, without considering any regulatory reliefs. The indicator will be calculated as the number of adequately capitalized banks divided by the total number of banks times 100. |
| Frequency | Semiannually (end-June and end-December) |
| Data source | BoG prudential returns |
| Methodology for Data Collection | MoF/FSD to request data from BoG |
| Responsibility for Data Collection | MoF/FSD |

## Monitoring & Evaluation Plan: Intermediate Results Indicators by Components

| Capitalization of Fund A1 of Ghana Financial Stability Fund | |
|---|---|
| **New external capital raised by banks and SDIs which receive support from Fund A1 (Amount(US$))** | |
| Description | Total new external capital (recognized as CET1 by BoG) raised by banks and SDIs ahead of receiving support from Fund A1. This will include all the new capital raised from new or existing shareholders. Only capital raised after December 2022 will count. Retained profits, revaluations, and other accounting adjustments positively affecting Core Equity Tier 1 will not be considered new capital. |
| Frequency | Semiannually (end-June and end-December) |
| Data source | Banks and SDIs |
| Methodology for Data Collection | Banks and SDIs will provide this information to the MoF FSD/investment advisory firm when applying for support under Fund A1 and will provide updates every six months. |
| Responsibility for Data Collection | MoF/FSD |
| **Of which from private sector shareholders** | |
| Description | Total new capital raised by banks and SDIs, from private sector shareholders, ahead of receiving support from Fund A1 of the GFSF. This will include all the new funds raised from new or existing private shareholders, including any amounts raised to meet minimum contribution under Fund A2. Only funds raised after the operationalization of the GFSF will count. Retained profits, converted or not to capital, will not count. |
| Frequency | Semiannually (end-June and end-December) |
| Data source | Banks and SDIs |
| Methodology for Data Collection | Banks and SDIs will provide this information to the MoF FSD/investment advisory firm when applying for support under Fund A1 and will provide updates every six months. |
| Responsibility for Data Collection | MoF/FSD |
| **Additional Tier 1 securities issued by banks and SDIs and acquired by Fund A1 (Amount(USD))** | |

| | |
|---|---|
| Description | Amount of Additional Tier 1 securities issued by banks and SDIs and acquired by Fund A1 in accordance with the AT1 term sheet |
| Frequency | Semiannually (end-June and end-December) |
| Data source | Banks and SDIs |
| Methodology for Data Collection | MoF FSD/investment advisory firm will keep track of all Fund A1 investments. |
| Responsibility for Data Collection | MoF/FSD |
| **Bank credit held by adequately capitalized banks (Percentage)** | |
| Description | Adequately capitalized banks (on solo basis) are banks that meet the minimum CAR of 13 percent, without considering any regulatory reliefs. The indicator will be calculated as the volume of loans and advances held by adequately capitalized banks divided by the total volume of loans and advances of banks times 100. |
| Frequency | Semiannually (end-June and end-December) |
| Data source | BoG prudential returns |
| Methodology for Data Collection | MoF/FSD to request data from BoG |
| Responsibility for Data Collection | MoF/FSD |
| **Women deposit accounts in adequately capitalized banks (Percentage)** | |
| Description | Total number of deposit accounts held by women in well-capitalized banks divided by the total number women deposit accounts in the banking system times 100. |
| Frequency | Semiannually (end-June and end-December) |
| Data source | Banks |
| Methodology for Data Collection | GDPC will share ifnromation on female accounts with BoG. BoG will compute the indicator and report to MoF/FSD |
| Responsibility for Data Collection | MoF/FSD |
| **Technical Assistance** | |
| **AQR of banks completed (where applicable (Text)** | |
| Description | AQR completed and reports delivered to BoG |
| Frequency | Semiannually (end-June and end-December) |
| Data source | BoG |
| Methodology for Data Collection | BoG will report to MoF/FSD on the status of the AQR |
| Responsibility for Data Collection | MoF/FSD |
| **All banks and SDIs with ESMS gaps when they receive support from Fund A1 have received capacity building to address such gaps (Text)** | |
| Description | ESMS gaps will be identified at the application/due diligence stage and each bank or SDI will receive capacity building to address such gaps within a certain period. |
| Frequency | Semiannually (end-June and end-December) |
| Data source | MoF/FSD |
| Methodology for Data Collection | Progres reports from MoF FSD/investment advisory firm will provide details about ESMS technical assistance provided to banks and SDIs, including scope and status of support,. |
| Responsibility for Data Collection | MoF/FSD |
| **Payout system of the GDPC upgraded (Text)** | |
| Description | Upgrade means the development and integrations of key modules such as the data quality assessment module, claims and complaints administration, and client and administration portal |
| Frequency | Semiannually (end-June and end-December) |
| Data source | GDPC |

| | |
|---|---|
| Methodology for Data Collection | Proress reports on the upgrade |
| Responsibility for Data Collection | MoF/FSD |
| **Project Management, Monitoring and Evaluation** | |
| **Beneficiaries satisfied with project-delivered services/support (Percentage)** | |
| Description | Percentage of survey respondent project beneficiaries satisfied with project-delivered services/support. The MoF/FSD will carry out one survey each year. |
| Frequency | Annual (end-December) |
| Data source | Survey |
| Methodology for Data Collection | Survey of beneficiaries |
| Responsibility for Data Collection | MoF/FSD |

## ANNEX 1: Implementation Arrangements and Support Plan

1. **The MoF—through its FSD—will have the institutional responsibility for coordination and management of the project.** Specifically, the project will be managed by the existing FSD PIU. The FSD is the designated Secretariat for the management of Fund A1 (Component 1) under the oversight of the GFSF Investment Committee and supported by a qualified investment advisory firm. In coordination with BoG and the GDPC, the MoF/FSD will also be responsible for the implementation of Components 2 and 3.

2. **A PCC will be established no later than 90 days after project effectiveness to coordinate project implementation.** It will be chaired by the project director and will comprise representatives (focal points) from the MoF's FSD and External Resource Mobilization and Economic Relations Division, BoG, and the GDPC. The PCC will (a) monitor technical and operational aspects of the project; (b) review and approve half-annual progress reports prepared by the project coordinator; and (c) proactively address any technical or implementation problems affecting the progress of the project. The PCC will meet at least quarterly to review the progress of the project and agree on the next steps. Before the PCC meetings, focal points will prepare quarterly updates of their respective activities, which will feed into the half-annual project reports.

3. **Monitoring and evaluation.** The M&E specialist at the MoF will lead the tracking of the results indicators in section VII. Working with the Secretariat and the investment advisory firm, the MoF will develop additional indicators to capture other contributions of the project to the financial sector in Ghana.

4. **E&S.** The MoF will retain E&S specialist(s) (the same specialists to be provided by the investment advisory firm) to lead the implementation of the ESMS, including supporting banks and SDIs in implementing robust ESMS. The MoF will also lead the implementation of the SEP.

### I. Implementation Support Plan

**Strategy and Approach for Implementation Support**

5. **Implementation support will aim at ensuring the achievement of the project's objectives.** It will focus on the mitigation of the project's technical, institutional, and fiduciary risks. The implementation plan is tailored to the needs of the project and identifies resources to be deployed by the World Bank to meet its fiduciary obligation and help the MoF achieve the project's objectives.

6. **The implementation support team will include task team leaders (TTLs) and relevant specialists.** One TTL and technical specialists on FM, procurement, environmental risk, and social development are based in Ghana. In addition to undertaking regular implementation support missions, the team will provide ongoing implementation support taking advantage of the teams' presence in the field. The team will conduct at least two implementation support missions per year.

7. **Project implementation support by the World Bank team will cover the following aspects:**

- **Management of Recipient country relationship.** The TTLs will coordinate and oversee project implementation support, ensuring regular communication with the MoF, deployment of resources to address project implementation challenges, and monitoring of the project's progress toward the PDO.

- **Technical.** Technical experts will support the implementation of various activities, ensuring that these are aligned with the PDO and agreed Annual Work Plans and (AWPs) and budget. Technical experts will also provide inputs to the development of terms of reference for various activities under Component 2 and 3, review technical reports and other outputs, verify compliance with Fund A1 eligibility criteria, and support the MoF in ensuring that the M&E framework continuously meets the needs of the project.
- **Financial management.** An FM specialist will assist the MoF in maintaining an efficient and reliable FM system capable of accurate and timely reporting on the uses of project funds. Based on the risk rating of the project and the current FM arrangements, it is expected that during the first year of project implementation, there will be four quarterly on-site visits to ascertain the adequacy of systems. The visits will be supplemented by desk reviews of the IFRs and audit reports. The FM supervision will adopt a risk-based approach, focusing on key risk areas such as the accuracy and reasonableness of budgets, their predictability and execution, compliance with payment and fund disbursement arrangements, and the ability of the systems to generate reliable financial reports. Training will be provided to the project team as needed.
- **Procurement.** A procurement specialist will provide ongoing guidance and support to the MoF, BoG, and GDPC to ensure quality procurement. Support will include continuous training and organization of procurement clinics to enhance the knowledge of the project's procurement team; review of procurement activities subject to the World Bank's prior review; and completion of post-procurement reviews, ensuring that recommendations of the reviews are implemented on time. Based on the procurement risk rating—Moderate—the procurement specialist will conduct at least one on-site supervision mission per year and at least 20 percent of contracts eligible for post review will be subject to procurement post reviews and technical reviews.

8. **E&S.** An environmental specialist and a social specialist will ensure ongoing support to the MoF on managing E&S risks and will join project implementation support missions.

## II. Financial Management Assessment and Arrangements

### Introduction and Summary

9. **Consistent with the guidelines as per World Bank Policy and Directive for IPF, an FM assessment was conducted at the Finance and Account Unit of the MoF.** The objective of the assessment was to determine whether (a) the lead implementing agency (MoF/FSD) has adequate FM arrangements to ensure that the project funds will be used for the intended purposes and in an efficient and economical way; (b) the project's financial reports will be prepared in an accurate, reliable, and timely manner; and (c) the entities' assets will be safeguarded.

10. In line with the World Bank's default of using aspects of the country system that are reliable, the project's FM systems are expected to be fully *mainstreamed* into the existing fiduciary arrangements of the Government. Overall, the assessment of the FM risk of the Finance and Account Unit of the MoF/FSD concluded that the FM risk rating is Moderate. The MoF, through its PFMU, is currently providing FM support to IDA-funded projects: GFSDP (P161787), GDFP (P169742), GETP (P166539), and GJSP (P166996). These have been effectively implemented without significant internal control lapses or fiduciary concerns.

### Project Financial Management

11. The key FM arrangements are as follows: the Director of Accounts of the MoF will have overall fiduciary responsibility for all FM aspects of the project. The routine daily transactional processing and reporting will be assigned to a dedicated project accountant. The proposed project accountant must be a qualified chartered accountant assigned or seconded by the CAGD. The responsibility of the project accountant is to ensure that, throughout project implementation, there are adequate FM systems in place to report on the use of project funds and verify that the funds are used for the intended purposes and in line with the PDO.

12. In addition, and under the supervision of the Director of Accounts, the project accountant will ensure compliance with financial covenants such as submitting acceptable Statement of Expenditure reports and IFRs, maintaining internal controls over project expenditure, and engaging external auditors. The project accountant will also be responsible for maintaining and operating the project's Designated Account (DA), as well as supporting the processing of payments to contractors and service providers. To strengthen the technical capacity of the Recipient's accountants and other project staff, the World Bank FM specialist will conduct trainings on World Bank FM and disbursement guidelines.

**Strengths and Weaknesses of the Financial Management System**

13. The MoF Accounts Unit—being part of the MoF Accounts and Finance Department—is fully functional and is staffed with accountants having varying levels of experience, particularly in public sector accounting. The existing project accountant and assistants within the unit have been involved in the implementation of World Bank-funded projects. However, given the envisaged workload, the World Bank recommends that, no later than three months after effectiveness of this project, the Recipient strengthens the Accounts Unit by seconding an additional dedicated accounts staff to support implementation who will be solely responsible for the FM aspects of project implementation and report functionally to the Director of Accounts of the MoF.

**Table 1.1. Action Plan**

| No. | Description | Responsibility | Target Completion Date |
|---|---|---|---|
| 1. | Assign an additional project accountant | Director of Accounts | No later than 90 days after project effectiveness |

**Summary Financial Management Assessment**

14. A summary of the key findings of the FM arrangements assessed at the MoF is presented in the following paragraphs.

*Budgeting Arrangements*

15. The MoF, as part of government ministries, departments, and agencies (MDAs), follows the budget preparation guidelines according to the Public Financial Management Act, 2016 (Act 921) and the annual budget guidelines issued by the MoF. Specifically, for this project, the budget will be derived from the IDA allocations which will serve as the basis for preparing the initial AWPs and Procurement Plans.

16. The Director of FSD, working in collaboration with the Director of Accounts, is responsible for initiating the budgeting process for the project and obtaining inputs (activities, schedules, timelines, and cost) from the beneficiary agencies. Once the budget is completed, it will be approved by the Chief Director for onward submission to the World Bank for review and clearance. The current budgetary control processes used mostly for the Government's discretionary budget are capable of monitoring commitments and outstanding balances, and this helps reduce the risk of multiple

payments. The assessment indicated that the Government's budgeting processes are satisfactory and can be relied upon to reflect the various components to be implemented.

*Accounting Arrangements*

17. Under the oversight and supervision of the Director of Accounts of the MoF, a dedicated project accountant will be assigned by the Recipient and will be responsible for the overall fiduciary aspects of the project. Specific accounting issues, such as recording and processing of payment vouchers, will be handled by staff within the PFMU of the Accounts Department of MoF. The Accounts Unit staff are familiar with World Bank FM and disbursement guidelines and operational policies. Specifically, for this project, the daily transactional issues will be the responsibility of the dedicated project accountant as assigned by the Director of Accounts and approved by the Chief Director.

18. The automated Ghana integrated financial management information system (GIFMIS) using Oracle Financials is the Government's default accounting system for managing all government funding. The accounting and reporting on the uses of the project's funds will be maintained using the GIFMIS platform.

*Internal Control and Internal Auditing*

19. Consistent with the decision to adopt aspects of the use of country systems for implementation, the project's internal controls will rely on the Government's established accounting and internal control guidelines as documented in the Public Financial Management Act, 2016 (Act 921). In addition, the expenditure initiation and related controls will follow the authorization and approval processes within the MoF, complemented by additional guidelines according to the World Bank's FM and Disbursement Policy. The MoF has a functioning Internal Audit Unit led by the Head Internal Auditor who is adequately qualified and experienced to help ensure a sound control environment throughout project implementation.

20. The FM assessment indicated that the internal audit and control environment is adequate for project implementation. The role of the internal audit will be regularly assessed during supervision missions by reviewing their reports and management responsiveness to their findings. This is to ensure that the role is not limited to transactional reviews (pre-auditing) but adds value to the overall control environment through risk assessment. The Head of Internal Audit is required to include the project in MoF's internal audit work plan and to periodically perform risk-based audits to monitor project activities and provide half-yearly internal audit reports.

*Funds Flow and Disbursement Arrangements*

21. This operation is an IDA credit of US$250 million. Proceeds of the credit will be used by the MoF and other beneficiary agencies for payment of eligible expenditures as defined in the Financing Agreement and further detailed in the respective AWPs and budgets. The proposed arrangement is to use a single DA denominated in US dollars and specifically opened at BoG. The DA shall be under the direct responsibility of the Chief Director but managed and operated by the Director of Accounts in collaboration with the Director of FSD. When funds are received into the DA, it is expected that within reasonable time, and bearing in mind the advert effect of potential exchange losses, the portion relating to capitalization of Fund A1 of the GFSF shall be transferred to Fund A1 and documentary evidence provided to the World Bank.

22. Disbursement arrangements have been designed in consultation with the MoF after considering the assessments of the MoF's FM capacities and anticipated cash flow needs of the project. Proceeds of the financing will follow the

standard World Bank procedures for IPF, to be used by the Recipient for eligible expenditures as defined in the Financing Agreement.

23. Based on the assessment of FM systems, the proceeds for the IDA credit will be disbursed to the project using report-based disbursement procedures through submission of IFRs. The IFRs (including the procurements subject to prior reviews and DA reconciliation statement) will also serve as the basis for withdrawals from the World Bank. Subsequent replenishments of the DA would be done based on the forecast of the net expenditures, including capital support needs from banks and SDIs under Fund A1. Requests for advances to Fund A1 will be accompanied by a six-month forecast of capital support needs of banks and SDIs, drafted by the MoF's Secretariat for Fund A1 and approved by the Investment Committee and the Director of MoF's FSD.

**Table 1.2. Disbursement Categories**

| Category | Amount of the Financing Allocated (expressed in US$) | Percentage of Expenditure to Be Financed (inclusive of taxes) |
|---|---|---|
| (1) Capital support to eligible banks and SDIs through Fund A1 under Part 1 of the project | 220,000,000 | 100 |
| (2) Goods, works, non-consulting services, consulting services, Training and Operating Costs under Parts 2 and 3 of the project | 30,000,000 | 100 |
| **Total** | **250,000,000** | |

*Note:* Additional and final instructions for disbursements will be provided in a disbursement letter to be issued for the project.

*Disbursement Conditions*

24. **Under Category 1: Capitalization of Fund A1.** Disbursement shall only be made under this category provided that the Recipient has met the following conditions: (a) recruited a qualified investment advisory firm, with requisite staff including an investment expert, an accounting and administration officer, and E&S specialist(s) and (b) adopted an ESMS.

*Financial Reporting Arrangements*

25. The project will be required to prepare and submit quarterly IFRs to account for activities funded under this credit. The project accountant is responsible for preparing and submitting acceptable quarterly IFRs. IFRs for the project are expected to be submitted not later than 45 days after the end of each calendar quarter.

26. The financial reports will be designed to provide relevant and timely information to the project management and to various stakeholders monitoring the project's performance. These reports should at the minimum include the following:

(a) A statement of sources and uses of funds by components according to the Project Appraisal Document (useful in the implementation of the components)

(b) A statement of sources and uses of funds showing the expenditure by category according to the Financing Agreement (for allocating expenditure according to the Financing Agreement)

(c) A budget variance report comparing the utilization of approved budget against expenditure (useful to the TTL for monitoring implementation and fund utilization)

(d) A DA reconciliation statement

(e) A list of payments (relating to that semester) made against contracts subject to the World Bank's prior review of current commitments, that is, signed and ongoing contracts

(f) A cash forecast for six months (to be the basis of requesting for additional funding)

(g) Any other report that shall be required to provide further and better particulars on project expenditure.

27. Documentation of eligible capital support payments under Category 1 will be accompanied by (a) a statement of disbursements to eligible banks and SDIs, signed by the Director of MoF's FSD, as well as bank statements evidencing the transfer of funds to banks and SDIs and (b) details of eligible capital support payment, to be included in the IFR. Advances to Fund A1 are not considered eligible expenditures. Documentation will only occur once the eligible banks and SDIs have received the capital support payments. At project closing date, any undocumented capital support payments will be refunded to the World Bank.

*Auditing*

28. In line with its mandate according to the Audit Service Act, 2000 (Act 584), the Auditor General is solely responsible for the auditing of all funds under the consolidated fund and all public funds received by MDAs. The capacity of the Ghana Audit Service (GAS) is assessed as generally satisfactory. In this regard, and consistent with the use of country FM systems, the GAS will conduct the audit of the project's financial statements.

29. Consistent with this practice, the GAS will audit the funds allocated and disbursed and issue a single integrated audit opinion which will be submitted to the World Bank. However, in case of workload challenges given the need to comply with other statutory assignments, the Recipient may opt for the project to competitively engage a private audit firm to undertake the annual audits of the project, including Fund A1. The audit of the project's financial statements will be performed on an annual basis. An audit report together with management letters should be submitted to the World Bank within six months after the end of the Government's fiscal year (December 31). The audit reports will be publicly disclosed by the World Bank in accordance with its disclosure policy.

**Conclusion of the Assessment**

30. The project's FM arrangements, as documented in the preceding paragraphs, indicate that they satisfy the World Bank's minimum requirements as per World Bank Policy on IPF. Overall, the FM residual risk is assessed and rated as **Moderate**.

**Implementation Support Plan**

31. Based on the risk rating of the project and the current FM arrangements, it is expected that in the first year of implementation there will be four quarterly on-site visits to ascertain adequacy of systems. The on-site visits will be supplemented by desk reviews of IFRs and audit reports. The objective of the FM supervision missions will include ensuring that strong FM systems are maintained for the project throughout its tenure. In adopting a risk-based approach to FM supervision, the key risk areas of focus will include assessing the accuracy and reasonableness of budgets, their predictability and budget execution, compliance with payment and fund disbursement arrangements, and the ability of the systems to generate reliable financial reports.

### III. Procurement Arrangements and Implementation Support Plan

32. **Procurement management**. Procurement under the proposed project will be in accordance with the World Bank's 'Procurement Regulations for IPF Borrowers' (Procurement Regulations), 5th Edition, dated September 2023; the 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', dated July 1, 2016; and other provisions stipulated in the Financing Agreements. The procurement documents will be based on the World Bank's Standard Procurement Documents for the international market approach, with relevant modifications for the national market approach as well as any enhancements to address ESHS issues including GBV, SEA, and SH. Procurement complaints' review and resolution will be undertaken by the Recipient in line with World Bank requirements in the Procurement Regulations.

33. **PPSD summary.** The PPSD has been prepared and covers all the relevant procurement activities for the first 18 months of the project. The PPSD findings indicate that the operational context for the procurement under the project is favorable as the economic, political, sustainability, and technological parameters are encouraging, given that there is political stability in the country with relatively good security. The project will leverage the use of technological infrastructure available in the country to improve stakeholder participation, delivery, monitoring, and reporting on the project. The sustainability issues regarding safeguards will be addressed using the relevant safeguard instrument to be prepared for the project. Further, ESHS/GBV/SEA/SH issues will be addressed through relevant provisions in the World Bank standard bidding documents.

34. High inflation and depreciation of the GHS was, however, identified to be the main economic risk to the project's procurement activities, as it could affect market predictability and pricing. To mitigate this risk, price adjustment provisions will be included in all contracts, irrespective of the duration, value, and complexity, to cater for local price fluctuations due to inflation and the depreciation of the GHS. In addition, it is expected that the macroeconomic reforms being pursued by the GoG, especially under the IMF program and the World Bank DPF series, will help improve the procurement environment to make it more competitive and realistic and aid in the achievement of value for money.

35. Nonetheless, the operational context is generally conducive with opportunities to leverage, including good procurement governance and systems, anti-corruption mechanisms, strong ESHS systems, advanced technologies, among others. Also, there are several competent and capable service providers in the sector as witnessed under GFSDP (P161787) and GDFP (P169742). The procurement packages will therefore be structured in a transparent and participatory manner to attract qualified and potential bidders and ensure value for money with integrity.

36. **Procurement implementation arrangement.** The MoF/FSD, currently implementing GFSDP (P161787) and GDFP (P169742), is the proposed implementing agency for the project. The number of procurement activities for the project is expected to be minimal. Thus, the procurement consultant of the GDFP (P169742) will also be responsible for this proposed project. The consultant of the GDFP (P169742) is proficient in World Bank procurement framework as well as procedures and will manage and report on the project's procurement.

37. **Procurement capacity assessment.** The assessment was conducted in accordance with the Operations Core Services-Procurement Policy and Services Guidelines and the World Bank PRAMS. The MoF is a declared procurement entity and undertakes procurements according to the Ghana Public Procurement Act 663, amended by Act 914. Therefore, the MoF has the stipulated procurement structure (for example, Procurement Unit, Head of Procurement, and ETC) to undertake public procurement per the act. The MoF has good experience in implementing World Bank-funded projects and is currently implementing GFSDP (P161787) and GDFP (P169742). Procurement performance on both projects could, however, be improved.

38. **Summary assessment of the procurement risk.** The inherent procurement risk is assessed as Substantial. This risk rating reflects the weaknesses demonstrated by the FSD/MoF in the implementation of the GFSDP (P161787) and GDFP (P169742), including (a) delays in the preparation of terms of reference and technical specifications; (b) weak contract management and inadequate filing and recordkeeping; and (c) procurement delays, especially evaluations and ETC and CTRC approvals.

39. **The project proposes the following three procurement risk mitigation strategies**: (a) adequate procurement planning to meet the meeting schedules of the ETC and CTRC to facilitate approvals; (b) close World Bank support and supervision in preparing the terms of reference and technical specifications for early commencement of procurement processes; and (c) contract management support and supervision of filing as well as recordkeeping.

40. **The residual procurement risk after implementation of these measures is thus Moderate.** The respective prior review and methods thresholds are indicated in table 1.3.

**Table 1.3. Prior Review and Methods Thresholds**

Thresholds Effective 8 June, 2023

| | Prior Review Threshold in (US$ '000) | | | | Procurement Method s Thresholds (in US$'000) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Works | | | Goods, IT and non-consulting services | | | Shortlist of National Consultants | |
| RISK RATING | Works | Goods, IT Systems+ Non Con. Serv | Consultant Firms | Consultant Individuals | Open International or ICB | Open National or NCB | Request for Quotation/ National Shopping | Open International or ICB | Open National or NCB | Request for Quotation/ National Shopping | Consulting services | Engineering & construction supervision |
| MODERATE | ≥$15,000 | ≥$4,000 | ≥$2,000 | ≥$400 | ≥20000 | <20000 | ≤400 | ≥4000 | <4000 | ≤200 | <600 | ≤1000 |

41. **Procurement planning.** The Procurement Plans will be prepared in STEP based on the cleared and latest version of the PPSD. STEP will be the primary platform to be used to submit, review, and clear all Procurement Plans and prior review procurement activities. The Procurement Plan will be updated in agreement with the World Bank project team at least annually or as required to reflect the actual project implementation needs.

42. **Operating cost procedures.** Operating costs financed by the project are incremental expenses related to implementation and will thus not be captured in the Procurement Plan. The procedures for managing these expenditures will be governed by the Recipient’s own administrative procedures acceptable to the World Bank.

43. **Frequency of procurement supervision.** In addition to the prior review supervision, which will be carried out by the World Bank, one field supervision mission will be conducted each year to carry out post review of procurement actions to determine whether they comply with the requirements of the Legal Agreement. The procurement post reviews will be carried out by the World Bank (or the World Bank may use the GAS to carry out the post reviews) and should cover at least 20 percent of post review contracts. Irrespective of the World Bank annual procurement post review, the project may undertake the Independent Procurement Audit, as required.

## ANNEX 2: Key Features of Additional Tier 1 (AT1) Capital

AT1 is part of BoG's Capital Framework introduced in 2018 through the Capital Requirements Directive. It is consistent with Basel III requirements.

Based on BoG Directive, AT1 is a debt security with capital-like features, including the following:

- Deep subordination to depositors, general creditors, and other subordinated debt of the bank
- No expiration/maturity date
- Ability to absorb losses while the bank is still operating (going concern), either through cancellation/write-down or conversion of the security to ordinary shares
- Coupons or interest paid to the buyer of the security (in this case MoF) only if the bank has profits or reserves to distribute; missed coupon payments are noncumulative
- Only the issuing bank can purchase back the security no sooner than five years, subject to approval by the regulator
- Requires a prespecified trigger point (usually a CET1 ratio) for cancellation/write-down or conversion.

## ANNEX 3: Financial Intermediary Assessment

1. **As detailed in section I.A., Ghana's macroeconomic environment has deteriorated despite recent signs of improvement.** Large fiscal imbalances have forced the Government to restructure its domestic debt, the bulk of which was held by banks and other financial institutions. Inflation is high (23.2 percent in December 2023, down from a peak of 54.1 in December 2022), and average lending rates are around 30 percent. Growth is expected to remain subdued in 2024.

2. **The direct and indirect impacts of the debt restructuring shook the solvency of the banking sector.** Without regulatory relief, the average CAR[29] fell below the regulatory minimum since end-2022. State-owned banks and domestic private banks were the most severely affected due to their higher exposures and lower capital buffers. NPLs rapidly increased in 2023 to reach 20.7 percent of loans in December 2023, compared to 16 percent 12 months before. High NPLs are likely to generate additional capital shortfalls.

3. **The project's main objective is to contribute to the recapitalization of banks and SDIs to safeguard financial stability.** Unlike a traditional FIF with an LoC, which requires a conducive macroeconomic environment and the soundness of the financial sector (adequate capitalization, low NPLs, and so on), this project is motivated by the macroeconomic and banking sector vulnerabilities discussed above. Nevertheless, the macroeconomic environment and financial sector soundness are expected to improve, aided by reforms supported by the World Bank DPF series, the IMF-ECF, and this proposed project.

4. **Against this backdrop, the FIF assessment focuses on institutional arrangements for implementation, pricing, and subsidies.**

5. **Implementation arrangements**. The MoF has designated its FSD as the Secretariat to manage Fund A1. The Secretariat will be strengthened through a competitive recruitment of a qualified investment advisory firm comprising an investment specialist, an accounting and administration officer, and E&S specialist(s). The main tasks of the Secretariat will include (a) developing key operational manuals and processes for Fund A1; (b) verifying banks'/SDIs' compliance with eligibility criteria; (c) commissioning independent assessments of banks and SDIs; (d) recommending approval and subscription of AT1 securities issued by banks and SDIs; and (e) regular monitoring and reporting. A five-member Investment Committee will oversee Fund A1.

6. **Pricing.** The coupon rate of the AT1 instrument will be linked to the longest-dated exchanged government bond (consistent with banks' participation in the DDEP). At the time of completion of the DDEP, the estimated coupon rate would have been in the range of 13–15 percent.

7. **Subsidies.** Compared to prevailing interest rates at the time of completion of the DDEP (around 30 percent for T-Bills; bonds are not currently trading), the proposed pricing entails a subsidy, which is needed to incentivize banks to recapitalize early, encourage shareholders to bring in new capital, and safeguard financial stability in a context where losses were triggered by the restructuring of public domestic exposures. Given the benefits expected to accrue from financial stability, including continued availability of core banking services and support to economy recovery through credit provision, the subsidy can be considered a least cost way of achieving the project development's objective compared to the fiscal and output costs of the failure of viable institutions. The fiscal and output costs of previous crisis

[29] Total capital (Core Equity Tier 1, AT1, and Tier 2 after deductions required by regulations) / RWAs (for credit, operational, and market risks).

episodes in Ghana have reached 6 percent and 44 percent of GDP, respectively. As the macroeconomic environment improves and interest rates decline, the subsidy element is expected to decline considerably.

8. **In line with the IPF FIF guideline, requirements listed in table 3.1 were considered.**

**Table 3.1**

| World Bank FIF Subsidy Requirement | Project Approach |
|---|---|
| **Transparent** | Availability and terms of support under Fund A1 will be communicated to all interested banks and SDIs. The term sheet and other relevant documentation of the Fund will be made available to all interested institutions. The list of beneficiary institutions and material events will be disclosed, where appropriate with time lag to avoid adverse market reaction. Subsidies associated with the support will be transparently disclosed. |
| **Fiscally accounted for/sustainable** | The cost of the government support to financial sector, including this project's contributions, is already included in the 2023/24 state budgets and has been factored in Ghana's debt sustainability assessment framework. Shareholders of eligible banks and SDIs will need to contribute new capital, demonstrating the value they place on the support to be provided by this project. After the end of the project, many banks and SDIs are expected to operate without public support as they have been operating before the debt exchange. |
| **Time-bound** | The proposed AT1 instruments are not dated. However, public support to private financial institutions under this project will not be permanent. It will be available only for the duration of the project, solely to address solvency gaps in the banking sector. |
| **Monitoring** | Subsidies will be monitored and disclosed. |
| **Competition** | Support will be available to all undercapitalized banks and SDIs that meet the project eligibility criteria and choose to access support. The maximum amount of AT1 that a bank can receive from the project is currently capped at 1.5 percent of RWA and therefore not material to alter competition dynamics in the banking sector. |

## ANNEX 4: Regulatory Relief Measures Granted to Banks by BoG

**BoG granted regulatory reliefs for banks that fully participated in the DDEP. The reliefs became effective on February 21, 2023, until further notice. The measures are as follows:**

- Reduction of Cash Reserve Ratio (CRR) from 14 percent to 12 percent on domestic currency deposits. The ratio was raised back to 14 percent on April 13th, 2023.
- Reduction of CRR from 13 percent to 12 percent on foreign currency deposits, which are to be held in foreign currency. The ratio was also raised back to 13 percent on April 13th, 2023.
- Reduction of Capital Conservation Buffer from 3 percent to zero, effectively reducing the minimum CAR from 13 percent to 10 percent.
- Derecognition losses emanating from the Debt Exchange shall be spread equally over a period of four (4) years for the purposes of CAR computation.
- Banks have a maximum of four (4) years to restore the minimum paid-up capital as a result of any capital shortfall arising solely from the derecognition losses.
- Increase in Tier II component of regulatory capital from 2 percent to 3 percent of Total RWAs.
- Reduction of minimum CET1 capital from 6.5 percent to 5.5 percent of Total RWAs.
- Increase in allowable portion of property revaluation gains for Tier II capital computation, from 50 percent to 60 percent.
- Risk-weights attached to new bonds to be set at 0 percent for CAR computation, and at 100 percent for Old Bonds.
- Derecognition losses arising from the Debt Exchange shall be spread equally over a period of four (4) years for the purposes of Net Own Funds computation.
- New Bonds will be fully deductible in determining the financial exposure of banks to counterparties under section 62(8) of the Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930), while Old Bonds will not be deductible for that purpose.
- Existing loan provisioning and classification (staging) rules shall be applied to all other Government exposures These exposures shall not be downgraded as a result of the effect of the Debt Exchange unless there is clear evidence of significant increase in credit risk.

## ANNEX 5: Overview of the Ghana Financial Stability Fund