Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 10-Jul-2018 | Report No: PIDISDSA24545

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Ghana	P161787	Ghana Financial Sector Development Project	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	11-Jul-2018	27-Sep-2018	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministry of Finance	Ministry of Finance	

Proposed Development Objective(s)

The objective of the project is to promote financial sector soundness and access to financial services by individuals.

Components

Improving Financial Sector Regulatory Oversight and Market Transparency and Discipline
Increasing the Outreach of RCBs and MFIs and Linking VSLAs to the Formal Financial Sector
Bolstering Financial Capability and Consumer Protection
Enhancing the Capacity for the Implementation and Monitoring of Financial Sector Policies and Supporting Project Implementation
Unallocated reserve

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	30.00
Total Financing	30.00
of which IBRD/IDA	30.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	30.00

IDA Credit	30.00

Environmental Assessment Category

C-Not Required

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. After nearly two decades of robust growth, which propelled Ghana into lower middle income country status in 2011, the economy is currently facing considerable challenges, including the issue of fiscal credibility across political cycles. Favorable prices for exports and high levels of domestic investments and oil-related foreign direct investments (FDI) spurred growth to an average of 6 percent between 2001 and 2010 and above 10 percent between 2011 and 2013, as oil production increased. However, recurrent policy slippages have amplified the impact of external and domestic shocks creating persistent imbalances and contributing to an economic slowdown. Weak fiscal and monetary policies in 2012-14, terms of trade shocks from sharply lower oil prices and electricity rationing slowed growth to 3.5 percent in 2016. Average inflation, which remained above 17 percent for most of 2016, moderated to 15.4 percent in December 2016 and further to 12.2 percent in September 2017. Substantial fiscal slippages in recent years, including those associated with the December 2016 elections, pushed gross public debt from 53 percent of GDP in 2013 to 73.4 percent in 2016.

2. Progress on the macroeconomic stabilization program implemented since April 2015 has been uneven. On the one hand, the fiscal deficit remained high at 9.3 percent of GDP in 2016—well above the target of 5.2 percent— leading to additional debt accumulation and an increase in interest costs. Ghana remains at high risk of debt distress and the costs of borrowing remain high. On the other hand, monetary policy tightening implemented in 2015 was instrumental for price and exchange rate stabilization. GDP growth, at 3.5 percent in 2016, was marginally above the projection (3.3 percent) and the current account deficit narrowed to 6.7 percent of GDP in 2016 from 7.7 percent of GDP in 2015. In addition, the increase in gross international reserves contributed to a stabilization of the exchange rate.

3. A new government headed by His Excellency Nana Addo Dankwa Akufo-Addo, of the New Patriotic Party (NPP), was elected in December 2016. The NPP party, campaigning on a platform of fighting corruption and building a business-friendly economy by shifting the focus of economic management from taxation to production, won 53.72 percent of the votes and a parliamentary majority of 169 of the 275 seats. The National Democratic Congress (NDC) led by former President John Dramani Mahama had been in power following the 2012 elections and the subsequent Supreme Court ruling in 2013.

4. Based on data from the Ghana Living Standards Surveys (GLSSs), Ghana has made remarkable progress in poverty reduction since 1991. About one-quarter of Ghanaians lived below the poverty line in 2013 and 9.6 percent

were in extreme poverty. This is substantially down from 52.7 percent (below the poverty line) in 1991 and 37.6 percent in extreme poverty that same year.[1] Thus, Ghana achieved the first Millennium Development Goal (MDG) of cutting its early-1990's poverty rate in half by 2015. Sustained, robust economic growth, broadly shared, has been a major factor in the reduction of poverty, but structural transformation, including the increasing shares of services and industry in the economy have also contributed. Increased productivity in agriculture has led to higher incomes in the rural economy. Improved education and skills have also contributed to better wages and hence the reduction in poverty. However, persistent spatial inequality (including in the access to financial services) remains an issue as the number of poor increased in Volta, Northern and Upper West regions, even while it declined in other regions.

Sectoral and Institutional Context

5. The financial sector in Ghana has grown over the past seven years, but remains bank-dominated. Total financial sector assets grew from 48 percent of GDP in 2010 to 68 percent in 2016. Commercial banks are dominant, with assets equivalent to 47 percent of GDP in 2016, followed by the fund management sector with 9.4 percent, and the pension sector with 9.2 percent. There are now 34 banks after the recent takeover of two small insolvent banks by one of the largest banks in the system. A third bank was placed under official administration in April 2018. While private credit to GDP (22 percent in 2016) is on par with the Sub-Saharan median, it is below the level implied by Ghana's level of income (FinStats 2018).

6. Although the banking sector appears to be sound on average, it is vulnerable to high and increasing non-performing loans (NPLs). Average capital adequacy ratio (CAR) was at 18.2 percent in April 2018, up from 17.4 percent April 2017, well above the above the regulatory minimum of 10 percent. However, there is a significant heterogeneity among institutions with some of them falling below the minimum CAR and at risk of further deterioration in capital positions as a result of increasing and high NPLs, which stood at 23.4 percent in April 2018, up from 19.8 percent a year earlier. The Asset Quality Review (AQR) completed in March 2017 identified provisioning and capital shortfalls in some banks, which were required to recapitalize or face enforcement actions by BoG. Since the completion of the AQR, two banks have failed and were partially acquired by one the largest bank in the system, while a third bank was placed under official administration by BoG.[2]

7. There are many formal and informal financial institutions playing a key role in financial inclusion, particularly serving the most excluded segments of the population. These include Microfinance Companies (MFCs), Money Lending Companies (MLCs), and Financial NGOs – jointly classified as Microfinance Institutions (MFIs); Rural and Community Banks (RCBs); Susu Collectors[3]; Savings and Loans Companies (S&Ls); and Finance Houses. S&Ls, Finance Houses, and RCBs are also categorized as Tier 1 institutions; MFCs as Tier 2; MLCs and FNGOs as Tier 3; and Individual Money Lenders and Susu Collectors as Tier 4. Together, these institutions are known as Specialized Deposit-Taking Financial Institutions (SDIs). As a group, SDIs account for around 14 percent of banks and SDIs' assets. There are also workplace, faith, and community-based credit unions with a total of 810,104 members[4]. Together with mobile money, SDIs and credit unions have been the main contributors to financial inclusion since 2010. In terms of size, S&Ls and FHs are relatively large and focus on consumer lending while RCBs and credit unions –both owned and governed by local communities – tend to have broader outreach,

[1] World Bank, Poverty Reduction in Ghana: Progress and Challenges, 2015.
[22] https://www.bog.gov.gh/privatecontent/Public_Notices/State%20of%20the%20Banking%20System.pdf
[3] Financial NGOs do not take deposits; Susu Collectors collect savings from client, which they usually deposit in other depository financial institutions.
[4] Only credit unions affiliated to Ghana Co-Operative Credit Unions Association (CUA).

offering savings, credit, and payment services to excluded groups such as women, the poor, and rural residents. Moreover, there are informal financial services providers such as Village Savings and Loans Associations (VSLAs). However, a significant number of SDIs – particularly MFIs, RCBs, and S&Ls – are not operating in a safe and sound manner and are in violation of prudential norms[5].

8. Within the context of a growing and increasingly electronic financial sector, but one that faces stability challenges, the percent of Ghanaians with access to formal financial services has increased. According to the Financial Inclusion Insights (FII) Survey (CGAP 2015), 58 percent of Ghanaians had access to formal financial services in 2015, up from 41 percent in 2010. While banks contributed 36 of the 58 percentage points in formal access, they only contributed 2 of the 17 percentage points increase between 2010 and 2015; conversely, mobile money alone accounted for 7 percentage points of the increase, and mobile money and other non-bank financial institutions (regulated MFIs, credit unions, insurance companies, etc.) jointly accounted for the remaining 8 percentage point increase. The percentage of Ghanaians with a registered financial account (bank, NBFI, or mobile money account) was 48 percent in 2015. More recent data (Findex 2017), shows that the percentage of Ghanaians with registered financial accounts increased to 58 percent in 2017, while the percentage with mobile money accounts increased from 13 to 39 percent between 2014 and 2017.

9. Access to financial services is heterogeneous across regions and key demographics. In terms of regions, the five poorest regions (Upper West, Northern, Volta, Upper East, and Brong Ahafo) remain the least financially included, despite the largest gains in financial inclusion taking place in these areas. Similarly, rural residents and women have less access to banks than do their urban and male counterparts. Rural residents, women, and the poor rely more heavily on Non-Bank Financial Institutions (NBFIs) and informal financial services than do urban residents, men, and the non-poor. In 2015, only 31 percent of women had bank accounts, compared to 43 percent of men (Figure 5 in Annex 2). Women rely more heavily on non-bank formal (26 percent) and informal financial services (20 percent), compared to only 19 percent and 12 percent of men, respectively. The 2017 Findex data confirm these gender disparities – 54 percent of women have registered financial account, compared to 62 percent of man.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

10. The objective of the project is to promote financial sector soundness and access to financial services by individuals.

Key Results

11. The project's objective will be achieved by upgrading the regulatory framework for SDIs and building supervisory capacity; promoting market transparency and discipline; upgrading systems used by RCBs, MFIs, and credit unions; increasing access points; linking informal groups with formal financial services providers; and educating and protecting consumers of financial services.

12. Among others, the project is expected to generate the following outcomes/results: (i) enhanced SDI and credit union regulatory and supervisory framework and resolution capacity; (ii) increased reporting by credit

[5] https://www.bog.gov.gh/privatecontent/Public_Notices/State%20of%20the%20Banking%20System.pdf

unions to CUA; (ii) increased usage of the ARB Apex Bank's e-banking platform; (iv) establishment of banking agents and expanded access points within the RCB network; (vi) increased number of VSLAs member with access to formal financial services; (vii) improved awareness of financial consumers about the benefits and risks of using financial services; (viii) faster handling of financial consumers' complaints by regulators; and (ix) improved capacity of FSD staff.

13. The Project Development Objective indicators are: (i) percentage of reporting SDIs (MFC, MLCs, RCBs, S&Ls and Finance Houses) and credit unions in compliance with their respective minimum capital adequacy requirement ratio; (ii) number of deposit accounts within the RCB network; and (iii) number of customers enrolled in the ARB's e-banking banking platform.

D. Project Description

14. The project comprises four components: (i) improving financial sector regulatory oversight and market transparency and discipline; (ii) increasing the outreach of RCBs and MFIs and linking VSLAs to formal financial service providers; (iii) bolstering financial capacity and consumer protection; and (iv) enhancing the capacity for financial sector policy implementation and monitoring and supporting project implementation.

<u>Component 1: Improving financial sector regulatory oversight and market transparency and discipline ($8 million).</u> This component supports BoG and the Ministry of Finance improve the oversight of SDIs and promote market transparency and discipline. Interventions include the enhancement of the regulatory and supervisory framework for SDIs to limit the recurrence of financial distress, while increasing consumers' trust in SDIs and supporting broader financial inclusion. It also supports the establishment of a robust regulatory framework for credit unions to ensure their effective licensing and supervision. Moreover, the component supports the establishment of a domestic credit rating agency to facilitate independent ratings of banks, SDIs, and insurance companies as a way to increase market transparency and discipline and supplement supervisory oversight while contributing to the development of the capital market.

<u>Component 2: Increasing the outreach of RCBs and MFIs and linking VSLAs to the formal financial sector ($13.0 million).</u> The objective of this component is to increase the outreach of RCBs and MFIs and integration of VSLAS into the formal financial sector by: (i) modernizing the MIS used by RCBs and MFIs to manage their business operations and to report to regulators; (ii) upgrading the e-banking platform of the ARB Apex Bank and building a shared network of agents to expand the existing branch network of RCBs; (iii) and building the capacity of select VSLAs in support of their outreach and integration into the broader financial sector. The institutions targeted by this component (particularly RCBs and VSLAs) are among the main providers of financial services to the less included segments of the population and have proved their effectiveness in driving financial inclusion in Ghana.

<u>Component 3: Bolstering financial capability and consumer protection ($3.6 million).</u> The objective of this component is to bolster financial capability and consumer protection and contribute to both financial stability and inclusion. It supports the design of targeted financial education campaigns and the upgrade of regulatory capacity and systems for consumer protection.

<u>Component 4: Enhancing the capacity for the implementation and monitoring of financial sector policies and supporting project implementation ($3.4. million).</u> This component will build the capacity of the Ministry of Finance's Financial Sector Division to deliver on its mandate of providing policy-based and strategic analysis on Ghana's financial sector and overseeing the implementation of strategies to strengthen financial intermediation

in Ghana. It will provident training to FSD staff and tools to generate, collect, and disseminate information on financial inclusion. Moreover, this component will finance the project implementation costs.

The project also includes an unallocated reserve ($2.0 million) – equivalent to 6.7 percent of the project amount – to provide flexibility during project implementation by covering possible unfavorable budget variances.

E. Implementation

Institutional and Implementation Arrangements

15. Project implementation will be mainstreamed within the institutional structure of the Ministry of Finance. Therefore, the Ministry of Finance, through the Financial Sector Division, will have the intuitional responsibility for coordinating and managing the project, including procurement of consultancies and goods and services, financial management and reporting, monitoring and evaluation (M&E), and providing implementation guidance to all implementing agencies.

16. A Project Steering Committee (SC) will be established to oversee the overall implementation of the project. Chaired by the Minister/Deputy Minister of Finance, the Committee will include high level representatives of the seven project implementing agencies – ARB Apex Bank, Bank of Ghana, CUA, FSD, GHAMFIN, NIC, and SEC – and other relevant stakeholders. The SC will provide strategic guidance on all aspects of project implementation, with the aim to ensure the achievement of project objectives.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The project coverage spans the entire country but does not have any physical footprints with negative safeguards implications. So, no description of location is required.

G. Environmental and Social Safeguards Specialists on the Team

Asferachew Abate Abebe, Environmental Safeguards Specialist
Gloria Malia Mahama, Social Safeguards Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	The project is largely providing advisory services, training and capacity building, supply of office equipment and ICT infrastructure to financial

		institutions and regulators in Ghana. No physical activities are envisaged and as a result no adverse environmental and social impacts are expected. As such, the project does not trigger any safeguards policy.
Performance Standards for Private Sector Activities OP/BP 4.03	No	
Natural Habitats OP/BP 4.04	No	This project activities will not pose any threat to the natural habitat.
Forests OP/BP 4.36	No	No forest will be affected by the project activities.
Pest Management OP 4.09	No	The project will not finance the purchase or use of any pesticides.
Physical Cultural Resources OP/BP 4.11	No	The project will not involve any works located within the vicinity of any recognized cultural heritages sites
Indigenous Peoples OP/BP 4.10	No	No indigenous peoples will be affected by this project activities.
Involuntary Resettlement OP/BP 4.12	No	Physical works are not envisaged under the project and as such the risk of resettlement and livelihood displacement non-existent. Project activities are largely Technical Assistance providing advisory services, training and capacity building, supply of office equipment and ICT infrastructure to financial institutions and regulators in Ghana.
Safety of Dams OP/BP 4.37	No	The project does not involve dam construction or any related structures.
Projects on International Waterways OP/BP 7.50	No	The project does not involve activities on international waterways.
Projects in Disputed Areas OP/BP 7.60	No	The project is not located in a disputed area.

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
The environmental assessment Category of this project is “C”. No physical works are expected, and the environmental and social safeguards risks are low.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
The potential long-term impacts are anticipated to be positive. Project activities will lead to improved access to and usage of financial service by underserved segments of the population, such as women, rural communities, poor, and farmers.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
The project activities do not pose any adverse environmental or social safeguards risks

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
The Environmental and Social risk profile is low and no safeguards policies are triggered.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
Project beneficiaries include the Ministry of Finance, Bank of Ghana, and Apex Institutions etc. No Project Affected Persons have been identified to be adversely impacted. The project however under component 3.1 will undertake financial education campaigns ensuring suitable delivery options that will reach women, youth, and rural residents.

B. Disclosure Requirements

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?
NA
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
NA

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
NA

Have costs related to safeguard policy measures been included in the project cost?
NA

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
NA

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
NA

CONTACT POINT

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APPROVAL

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