The GH Bankers' Voice 2023

3rd Edition

GAB
Ghana Association of Banks

- Investing for the Future
- Sustainable Finance
- The Future of Money
- Industry Insights

GLOBAL ECONOMIC CRISIS:

Leveraging Opportunities for the Financial Ecosystem

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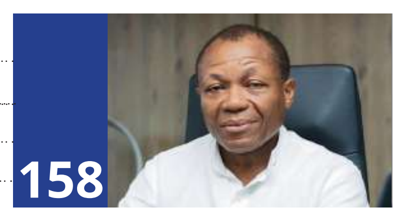


Foreword

"Banks within the industry understood and appreciated the exigency; and grave need to support the government towards regaining the economy"

Mansa Nettey
President, Ghana Association of Banks

Banks remain the bedrock of modern economies; they fuel the private sector with the requisite funding to ensure it effectively assumes its role as the engine of growth. In essence, banks are vital to the development of trade and industry; they facilitate strategic movement of capital to productive assets; provide significant insights into financial processes; offer financial services to large segment of the population; assure greater financial inclusion; propel growth of individual economies and the global economy, among others.

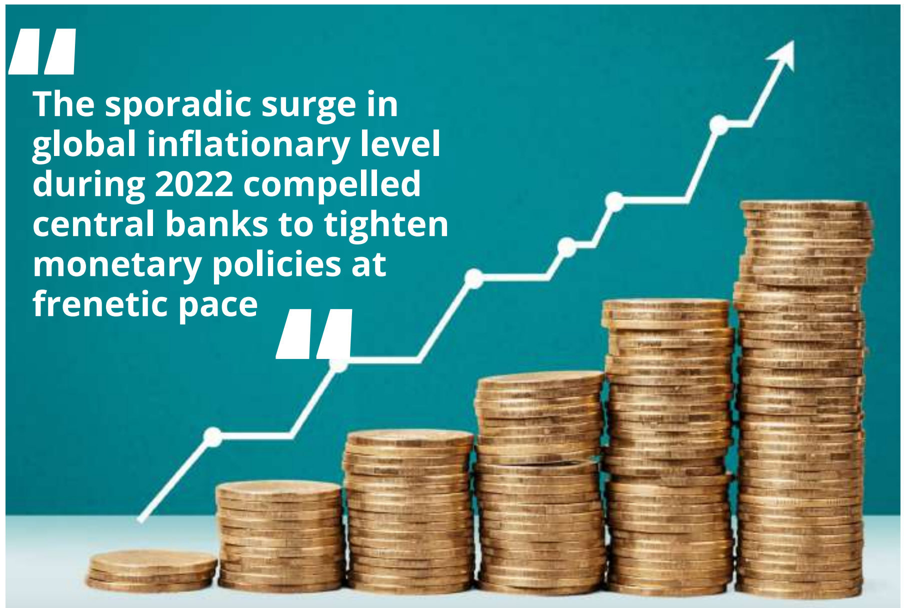
However, outlook for the global economy in 2022 was not very pleasant; albeit it was the year during which the global economy was envisaged to recover from the throes of uncertainty unleashed by the predatory COVID-19. Slowdown in global economic activities was broad-based and sharper than expected; while surge in inflationary level remained higher than experienced in several decades.

Growth in the global economy during 2022 was projected at 3.2%; which remained 2.8% shy of the growth recorded during 2021 (6.0%), but 0.5% higher than the projection for 2023 (2.7%). The International Monetary Fund (IMF) (2023) described the foregoing growth as the weakest since 2001, save the acute phase of COVID-19; and period of the global financial crisis (2007 – 2009).

Factors such as the Russia-Ukraine war; cost of living crisis; lingering COVID-19 pandemic; and tightening financial conditions in most regions affected good performance of the global economy during the financial year under review. It is not exaggerative to affirm that Russia's decision to invade Ukraine on February 24, 2022, reversed the growth gear for the global economy; and plunged it further into its through.

The global economy was expected to end 2022 financial year with inflation rate of 8.8%, representing 4.1% increase in the rate recorded during the previous year (4.7%); and 2.3% more than the forecast for 2023 (6.5%). However, global inflation is forecast to decline to 4.1% in 2024 (IMF, 2023). The sporadic surge in global inflationary level during 2022 compelled central banks to tighten monetary policies at frenetic pace. Most central banks increased policy (interest) rates in the midst of slow growth; and this was believed to have boosted further, the prospects of a recession in 2023.

Indeed, geopolitical tensions, supply chain disruptions and turmoil within the banking industries in the United States and Europe heightened systemic vulnerabilities across countries and within the global economy. The invasion of Ukraine by Russia stoked geopolitical tensions, supply chains were disrupted and caused increases in energy and food prices to multi-year highs. Analysts argue that the trajectory of the Russia-Ukraine war would determine the severity; and extent to which global Gross Domestic Product (GDP) would be impacted in 2023.



The financial system in the United States was severely impacted by the failures of Signature Bank and Silicon Valley Bank; and significantly affected by the potential collapse of First Republic Bank. To avert further exacerbation of the challenges saddled with the banking system, eleven of the largest banks in the United States (including JP Morgan Chase, Bank of America, Wells Fargo, Citigroup, State Street, BNY Mellon, Truist, U.S. Bank, PNC Bank, and others) committed to raising about US$30 billion in deposits for First Republic Bank (Stein, 2023). The overarching idea was to create firewall to protect institutions in the industry from continued bank runs; and inoculate themselves (banks) from further angst about the banking and financial systems in the country.

Analysts predicted 2023 to be the third-worst financial year in terms of global economic growth, after the global financial crisis between 2007 and 2009; and 2020 when the global economy was brought to a virtual stand-still by COVID-19 lockdowns. In China, the healthcare system remained overwhelmed amid alarming increase in COVID-related cases, following the country's announcement on the exit from its zero-COVID policy. The deluge of infections was envisaged to cause short-term disruption to the world's second-largest economy, with some contagion effects, including fragile recovery in global supply chains.

Major economies such as the United States, United Kingdom and economies within the eurozone are predicted to slip into recession in 2023; as central banks continue to increase policy rates to strategically tamper aggregate demand for consumer goods and services in their bid to rein in surging inflation.

Identified measures to address the global economic challenges include the need for policymakers to ensure monetary policy stays the course towards restoring price stability. Fiscal policy is designed to alleviate cost of living pressures; and tight stance that aligns with monetary policy is maintained.

Further, structural reforms should improve productivity and ease supply constraints; as these economic feats could enhance the fight against global inflation. Finally, the global economy could prevent fragmentation; and fast-track the transition towards green energy through multilateral co-operation.

The Ghanaian economy was not spared the brunt of national and global challenges during 2022 financial year. The country was shut off from the global capital market owing to its fiscal outlook, debt sustainability and liquidity challenges. Russia's invasion of Ukraine further compounded the impact of COVID-19 on the economy resulting in a weakened currency. Growth in real GDP consequently slowed from 5.4% in

2021 to 3.3% during 2022. Average inflation rate within the economy in 2021 (10%) was better than the estimated rate for 2022 (31.5%). Factors such as depreciating Ghana Cedi and rising energy and food prices accounted for the surge in inflation rate during 2022.

As part of measures to curb inflation, the Bank of Ghana tightened monetary policy; it hiked policy rate from 14.5% in 2021 to 27% in 2022. However, the impact of these economic policy rate hikes on real prices was quite minimal. The country's public debt as a percentage of GDP in 2022 was estimated at 93.5% (relative to 82% in 2021); while fiscal deficit inched to 9.3% in 2022 from the 9.2% recorded in the previous year. The increased public debt during 2022 (93.5% of GDP) was believed to have been driven by primary fiscal deficits; and depreciation in the exchange rate.

The country experienced low credit ratings from some of the world's leading agencies. As of the close of 2022, S&P, Moody's and Fitch had downgraded Ghana's sovereign rating to 'Selective Default (SD),' 'Ca' and 'C' respectively.

The outlook and consistent surge in Ghana's total debt raised concerns about the country's ability to ensure sustainability and decline in total national debt in the immediate- and medium-term. As at June 2022, Ghana's total debt stock was GH¢393 billion, which remained GH¢41.2 billion higher than the value reported at the end of the preceding year (GH¢351.8 billion); and GH¢1.1 billion in excess of total debt as at March 2022 (GH¢391.9 billion).

In its debt sustainability report, the IMF classified the Ghanaian economy as high risk of debt distress, thereby necessitating the adoption and implementation of fiscal measures that would assure debt containment.

Due to the deteriorating economic conditions, Ghana commenced engagements with the IMF in the second half of 2022 for a 36-month $3 billion Extended Credit Facility to restore macroeconomic stability and debt sustainability.

Generally, Ghana was expected to ensure the implementation of rigorous and credible medium-term consolidation plan that would maintain total debt on a declining trajectory while ensuring continued market access. With IMF's requirement to drop Debt levels to 55 percent of GDP, a Domestic Debt Exchange Programme (DDEP) was proposed, which involved bondholders exchanging existing bonds for longer-dated ones with significant coupon reduction.

In the midst of all the macroeconomic headwinds, the banking industry remained profitable; and resilient from the first through third quarters in 2022. Performance in the third quarter was impressive, as the published financial statements of most universal banks depicted profits. The respective year-on-year industry loans and advances to customers; total deposits by customers; total operating

In the midst of all the macroeconomic headwinds, the banking industry remained profitable; and resilient from the first through third quarters in 2022.

income; and profit-after-tax at the end of the third quarter witnessed respective increase of 47.97%; 31.26%; 23.71%; and 18.83%.

Nonetheless, performance of the industry during the last quarter of 2022 thumped, as government finally declared its intention to engage the International Monetary Fund in talks towards credit facility; and towards imminent discussions on restructuring of the country's debt, with special emphasis on the Domestic Debt Exchange Programme.

Implementation of DDEP fuelled significant impairment losses (over GH¢19.23 billion) for the banks; and reduction in shareholders' funds to GH¢20.57 billion in 2022 from GH¢26.49 billion in 2021. Overall, the industry incurred loss of GH¢6.02 billion during 2022 financial year, which was significant dip from profit of GH¢4.99 billion recorded in 2021.

However, the industry understood and appreciated the exigency to support the government towards regaining economic stability, a crucial factor to the existence of all state and private sector institutions. Member Banks therefore participated fully in the programme following series of negotiations between the banking industry and the authorities; a testament to our commitment to the national cause. The success of the Debt Exchange was a major step towards achieving IMF's Board approval committed to the national cause; and ensuring a resilient sector that can deliver its mandate of financial intermediation and inclusion in the immediate-, medium- and long-term.

Measures that would mitigate the losses incurred by banks and non-bank institutional investors and households were rolled-out by the government. The effect on banks was slightly minimised by the extended maturities (and not written-off debts); and lower policy rate, rather than reduction in the nominal amount of the outstanding claims.

However, sustainability of public debt and liquidity would be restored if the rigorous and credible consolidation plan intended for implementation is strategically structured to restore macroeconomic stability, improvement in the country's primary balance, access to market; and place the country's debt on a declining trajectory.

The complementary role of banks in the national cause towards debt sustainability and economic freedom is exemplified in the banks' commitment towards the implementation of internal mechanisms that would assure the industry's robustness and resilience to internal and external economic shocks.

While the industry continues to experience some challenges, there remain opportunities within the market as the private sector continues to demonstrate resilience. Start-ups and existing businesses could take advantage of the financial outreach and SME clinics; and thought leadership programmes organised by banks and other financial institutions to access loans to scale their businesses; create jobs; ensure economic stimulation; enhance development and accelerate growth.

Increasing complexity of the banking and financial ecosystem creates the enabling environment for disruptive start-ups and financial giants to consistently navigate challenges and opportunities. Digital transformation has increased competition from Fintech companies. The shift to digital, specifically online and mobile banking, remains the most prevalent trend in the financial services sector. Banks continue to partner Fintechs to assure speed and convenience in service delivery to retain existing customers; attract prospects to reduce unbanked segment of the population; improve operational performance and profitability; and accelerate the drive towards financial inclusion.

Further, member banks are accelerating their collaboration with Fintech companies to facilitate development and deployment of new banking products and services that would innovatively and adaptively address identified gaps in the financial market. Increased public confidence and trust would potentially lead to the attraction of more foreign direct investments (FDIs) and local investments to the banking industry.

Establishment of the African Continental Free Trade Area (AfCFTA) presents institutions in the banking industry with the unique opportunity to collaborate and expand their business operations and clientele-base; facilitate credit for businesses (small-, medium- and large-sized) through intermediation; contribute meaningfully towards reduction in unemployment through direct employment and job-creation opportunities for start-ups; accelerate development and growth of the financial sector; play enabling role in key sectors such as manufacturing, health, agriculture, oil and gas, education, energy, telecommunications and infrastructure, among other major sectors; and drive economic growth at the national, regional and global levels.

Prudential financial data released by member banks during the first quarter (Q1) of 2023 affirmed robust and resilient performance of the industry. To build on these positive exploits, the industry is urged to roll out measures that would ensure significant improvement in asset quality during 2023 and beyond. Specifically, member banks should strive to strengthen existing metrics for credit risk assessment; expand loan books; and intensify loan recovery efforts. In addition to the foregoing, the industry should strategically target private sector credit growth to deepen financial intermediation.

Banks should remain committed to collaborating with the government, relevant ministries and regulatory bodies to ensure an expedited turn-around of the industry from the current economic challenges. However, the success of this would be premised on concerted efforts and strong support from the Bank of Ghana and other key stakeholders, both local and foreign, within the financial ecosystem. Continuous support from the Regulator is required to propel and sustain efficiency in the

operations and performance of the banking industry.

In response to the recent contraction and macroeconomic instability, the government sought to implement structural changes that would propel growth in the economic activities of small- and medium-sized enterprises (SMEs). The Association remains committed to complementing government's efforts by encouraging and promoting active participation of member banks; and conducting analysis of how rising interest rates influence SMEs' access to credit, among other pertinent macroeconomic considerations.

Environmental, social and governance (ESG) concerns have been identified as a megatrend with strong potential of shaping the global business landscape over the next decade. Throughout the world, many investors are developing growing interest in benchmarking their decisions on investment to the ESG capabilities of targeted corporate bodies. Banks must prioritise its inclusion in management strategies that are carefully designed to drive corporate success and assure competitive edge.

Banks operating in Ghana are uniquely positioned to benefit from the growth in the sustainable finance market, which is estimated to exceed US$50 trillion within the next five years. In view of the foregoing, banks are leveraging on existing opportunities to ensure efficiency in their management of ESG-related risks through funding activities.

The industry is not oblivious of how adverse consequences and subsequent improvements in the domestic debt restructuring programme would require careful evaluation by the banks and major stakeholders such as the Government, Ministry of Finance and Bank of Ghana to assure; and offer potentially superior restructuring mechanism.

Regular stress-testing, scenario planning and scenario testing, rigorous market research, implementation of more robust risk assessment, management system and possible hedging of positions taken in securities investments are some of the strategic measures outlined by member banks to ensure long-term success of the industry in post-DDEP era.

Following the widespread use of the internet and mobile technology, the global banking sector has undergone major transformation; and the pace is not likely to slow down anytime soon. Computing, mobile devices and technology in general would

In spite of the challenges saddled with the Ghanaian economy, the private sector continues to demonstrate resilience.

continue to drive the future of banking. Banks of the future are envisaged to operate with minimal human intervention due to the introduction of robotics and artificial intelligence (AI).
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Available statistics affirmed, global searches for ‘banking automation’ grew by 153% between March 2022 and March 2023; while 65% of industry executives believed zero-human banking would become a reality in the future. Smart banking, omni-channel banking, open banking and modular banking are expected to anchor the future of banking.

Priorities such as data-enabled customer focus, broad-based trust and tech-powered transformation are increasingly becoming urgent; as they help to improve risk management strategies, know-your-customer (KYC) initiatives, anti-money laundering (AML) strategies; and enhance client services delivery. Irrespective of the developments in the immediate-, medium- and long-term, the global banking environment is envisaged to be radically more competitive than it is today.

The onus, thus, lies on banks to make cogent long-term decisions, including economic diversification of investment portfolios and increased engagements with private sector firms and industries to minimise risk; and assure the resilience and relevance of banks in the post-DDEP era. Further, banks would consistently have to strive to partner and collaborate with the Bank of Ghana, Securities and Exchange Commission (SEC); and other regulatory bodies. Finally, they would have to maintain strategic partnerships with the Government, Ministry of Finance and other stakeholders within the public and private sectors to effectively propel the Ghanaian economy towards the path of sustainable growth.

Mrs. Mansa Nettey
President, GAB.

Key Messages

CEO's Message

"It is refreshing and instructive to state, in the midst of the difficulties lies opportunities that the private sector could boldly take control of to change the growth narrative of the Ghanaian economy."

John Awuah
CEO, Ghana Association of Banks

Over the past decades, Ghana has been making tremendous efforts towards transitioning the economy from the lower echelons of development to the path of accelerated growth. The overarching idea is to fast-track the country's full integration into the global banking system; and position itself within the global economic order. Practical manifestation of this was evidenced during fiscal year 2010-2011 when the country's economic status was transformed from developing to lower-middle income economy.

However, in recent years, Ghana's expeditious economic journey has been impacted by key factors such as outbreak of the portentous COVID-19; Russia-Ukraine war; and accumulation of unsustainable domestic and external debts, resulting in the government's debt restructuring programme, among other pertinent factors. Vulnerabilities within the banking industry were heightened by the effect of implementation of the domestic debt exchange programme (DDEP); and aggressive depreciation of the local currency (Ghana Cedi) relative to major foreign currencies such as the British Pound Sterling, European Euro and American Dollar.

In spite of these prior and recent economic challenges, efforts are consistently being made to ensure the country competes effectively; and return to the path of becoming a credible member within the global economic order by maintaining vibrant banking industry, robust and resilient financial sector; while working towards attaining upper-middle income status in the not-too-distant future. The foregoing is corroborated by the Ghana Country Partnership Framework (CPF) for financial years 2022 through 2026, which was presented to the World Bank Group Board on February 22, 2022 (World Bank, 2023).

The Ghana Country Partnership Framework, which is consistent with the World Bank Group's COVID-19 Response Framework seeks to support government in the management of the impact of the COVID-19 crisis through the implementation of measures that would preserve critical human capital and capabilities; while taking the opportunity to build back the economy. The Framework seeks to build back Ghanaian economy that could aptly be described as dynamic and diversified; and creates job opportunities for greener, more resilient and inclusive society.

Evidence suggests financial services sector that is characteristically robust and resilient is needed to drive sustainable development and growth in an economy; and within the global economic order. For instance, financial stability in individual countries and globally helps to create jobs and improve productivity; increases the level of confidence of the people to save and invest; while robust banking system and capital market increase efficiency in the flow of funds to the most productive areas within the economy.

Further, stability in financial system creates the enabling environment for governments to raise capital; maintain financial safety nets; and improve welfare and living standards. These and other positive attributes of stable financial systems explain why in the United States, government officials and Wall Street compellingly staged an emergency intervention to quell tremours in the country's financial sector, following the initial collapse of Silicon Valley Bank and Signature Bank; and later potential collapse of First Republic Bank.

Stability in financial system creates the enabling environment for governments to raise capital; maintain financial safety nets; and improve welfare and living standards.

To avert the collapse of First Republic Bank and practically demonstrate robustness and resilience of the United States banking system, four major banks, namely Citigroup, JP Morgan Chase, Wells Fargo and Bank of America announced respective injections of US$5 billion for First Republic Bank; Morgan Stanley and Goldman Sachs were expected to deposit US$2.5 billion each; while PNC Bank, State Street, Truist Bank and BNY Mellon announced respective deposits of US$1 billion in First Republic Bank (Stein, 2023).

In all, eleven of the largest banks in the United States announced their preparedness to deposit a total of US$30 billion into First Republic Bank (Stein, 2023). The intervention of these banks was strategically intended to save the First Republic Bank from collapse; avert any contagion effect; and send positive signal and assurance to depositors and the global market that the United States' financial system remained resolute and secure, in spite of the recent failures in the banking system.

In Ghana, banks in the industry were coasting through the 2022 financial year until discussions by the International Monetary Fund (IMF) and Government of Ghana on the latter's debt restructuring programme, specifically the domestic debt exchange programme, reared their unfavourable heads; and dominated national economic discourse, thereby sending the industry onto uncharted performance path.

The Government of Ghana's resolve to implement DDEP fueled huge impairment losses for the industry, especially banks with substantial portion of their investments in government securities. This translated into losses for the industry with the exception of few institutions (Société Générale (SG); United Bank for Africa (UBA); First Bank of Nigeria (FBN); Bank of Africa (BOA); and Guarantee Trust (GT) Bank) who recorded profits. Overall, the industry incurred loss-loss-after tax of GH¢6.02 billion during 2022 financial year which compares unfavourably with the 2021 profit-after-tax of about GH¢4.99 billion.

Banks operating in Ghana were impelled to swallow a bitter pill by taking the difficult decision to work closely with managers of the Ghanaian economy to secure a programme of the International Monetary Fund (IMF) that could avert total economic collapse; and facilitate the stability and acceleration of the recovery; and stimulate the economy towards desired growth levels. It is worth emphasising, collaborative efforts of the government; key actors in the banking industry; and other actors in the financial sector birthed the domestic debt exchange; and hence, the IMF Extended Credit Facility.

Government's challenges to effective implementation of its 'home-grown' interventions including reduction in Government Ministers' salaries by 30%, introduction of 1.5% electronic transaction levy, cuts in discretionary national spending by 30%; and series of mass protests over weakening economy; as well as the need for sustainability and analysis of the country's mounting debt, among others, necessitated discussions on the sovereign debt restructuring. Initial discussions on DDE created room for speculations; and incited public fear of investment losses (Aidoo, 2022).

Fiscal discipline should be maintained.

Generally, the conditionalities or interventions proposed by the IMF as preconditions for bailout tend to impose untold hardships on the people; the austerity measures introduced by the IMF for implementation tend to impact adversely on the living standards of large segment of the population. In essence, improved living standards could be assured when government's implementable interventions are developed based on internal analysis, understanding and appreciation of the socio-economic needs of the people; and not based on external imposition. The foregoing implies current and successive governments would do Ghanaians a great deal of service if they are able to adopt and implement economic measures that would prevent another visit to the International Monetary Fund.

To stem the tide and prevent further visit to the IMF, it is imperative to ensure efficiency in the management of public funds; there should be significant improvements in the performance of state-owned enterprises (SOEs) to minimise government's financial allocations to the sector; conscientious efforts should be made to improve exports through value-addition and increase in export commodities.

Further, fiscal discipline should be maintained; the manufacturing industry should be revamped and expanded to increase local production and become export-oriented. This would reduce the level of imports, create jobs and ensure economic stimulation; while assisting in the management of volatilities in the local currency (Ghana Cedi) relative to foreign major currencies.

Managers of the economy are urged to utilise the opportunity to deploy the current challenges to work assiduously and intentionally towards changing the structure of the economy with strong emphasis on developing import-substituting manufacturing concerns; de-dollarising the economy; punishing corrupt practices; depoliticising national

dialogue; and maintaining lean and clean government structures, among others.

Finally, strategies for domestic revenue mobilisation should be improved to reduce excessive dependence on both domestic and foreign borrowings towards financing national projects; and towards repayment of outstanding debts. In sum, Ghana must take proactive steps to address the underlying causes of its balance of payments challenges to assure robustness and resilience of the economy; and minimise the likelihood of further desperate trip to the IMF.

The private sector is touted as the engine of economic growth. It is refreshing and instructive to state, in the midst of the difficulties lies opportunities that the private sector could boldly take control of to change the growth narrative of the Ghanaian economy. The banking industry has intensified its preparedness to anchor the national economic recovery efforts by arming different categories of businesses, especially small- and medium-sized enterprises (SMEs) with resources to scale their operations; and increase their contribution to economic stimulation and growth.

Based on discussion in the preceding section, Ghana's framework for strategic development that would potentially curb further visit to the IMF should be focused in three areas. These include implementing measures that would improve conditions for private sector development with quality job growth; promote inclusive service delivery; and enhance sustainable development with digital transformation serving as a cross-cutting theme.

A clarion call to action is passionately made to the business community and Ghanaians in general that, while the African Continental Free Trade Area (AfCFTA) creates access to a market of about 1.4 billion people; and gross domestic product (GDP) of nearly US$2.3 trillion on the African continent, without deliberate actions on a co-ordinated response, businesses in Ghana risk being cannibalised by their counterparts in other parts of the continent.

The aforementioned statement underpinned the selection of theme for the Third Edition of The GH Bankers' Voice Magazine, that is, 'Global Economic Crisis: Leveraging Opportunities for the Financial Ecosystem.' Feedback from Readers on the previous two (2) editions of the Magazine was very phenomenal; and the Third Edition promises to be more exciting; it would whet your appetite with thought-provoking feature articles; banking industry analysis; report on surveys; interview and profiling of the Managing Director of one of our Member Banks.

On behalf of the Ghana Association of Banks (GAB), I would like to thank all the individuals and organisations whose efforts and ideas contributed immeasurably; and in diverse ways to the success of the Third Edition of the Magazine. Specific mention is made of the Governing Council of the Association, Bank of Ghana (BoG) and Member Banks; Staff of GAB and KPMG for their dedicated service towards the release of this Magazine. Finally, I would like to thank all our cherished Readers and wish them enjoyable reading.

Mr. John Awuah
CEO, GAB.

Message from KPMG in Ghana

Global Economic Crisis: Leveraging Opportunities for the Financial Ecosystem

Anthony Sarpong
Senior Partner - KPMG, Ghana

Ladies and gentlemen, I am very excited about this edition of The GH Bankers Voice as it comes at a time when several discussions are ongoing in the sector. Since its launch, the Magazine has served as mouthpiece for professionals in the banking industry in discussions on topical issues; and provided relevant information for Members of the Association. This Edition has several articles that provide insights on the global economy; Ghana's economic landscape and context; and how banks are particularly raising their heads above the storm in discharging their important mandate of financial intermediation in our market.

In times of economic crisis, history prompts us that the strongest amongst us rise to the occasion. Throughout history, societies faced with adversity have birthed innovations that transformed the world. From the Great Depression's birth of the modern welfare state to the emergence of fintech disruptors from the 2008 financial crisis, challenges have usually triggered transformative shifts.

Today, as we confront another global economic storm, we find ourselves at a crossroad: would we merely weather this storm, or we would seize the chance to chart novel course towards brighter and more promising future?

2023 would go down as a year full of activities for the banking industry. The Domestic Debt Exchange Programme (DDEP); ripple effects of the Russia-Ukraine war on fuel prices and supply chains; collapse of Silicon Valley Bank and two other major U.S. lenders; rise in geopolitical tensions; and Ghana's recent request for a bailout from the International Monetary Fund (IMF), point to a situation reminiscent of the 2008 global financial crisis. It is time to readjust our outlook; and write a new script.

We now find ourselves in a paradigm characterised by disrupted global supply chain; high turnover rate; global inflationary pressures; plodding growth; and diminished investments, all of which pose significant threats to financial institutions.

The Government of Ghana faces the intricate task of navigating mounting inflationary pressures; domestic and external debt burden; and rising unemployment

rate accompanied by brain drain. The DDEP has had far-reaching implications for the financial industry. The programme, initiated by the government, as part of the IMF conditionalities, led holders of selected Government of Ghana (GoG) debt instruments to exchange existing bonds for new bonds issued at new rates and maturities respectively. Consequently, some banks lost high-quality liquid assets, with only 6 out of 21 banks recording profits in the initial stages of the programme; as reported in the financial statements of the respective banks.

A global recession looms on the horizon, with predictions hinting it may persist until 2025. According to the Chief Economist's Outlook (as cited in World Economic Forum, 2023), 61% of economists expect the global economy to weaken in the coming year. Further analyses revealed 93% postulate the pace of interest rate rises would slow; 90% believe geopolitics would be a source of global economic volatility; 86% contend the worst of the global inflationary surge would have passed; 85% opine lending conditions for business would tighten; 79% are of the view domestic politics would be a source of global economic volatility; and 68% assert that labour market conditions would loosen in advanced countries. The Russia-Ukraine war among other factors has contributed to the rising fuel prices, thereby bloating production and transportation costs; and higher cost of living. These have contributed to the global inflationary pressures for which governments have resorted to increasing interest rates to stem its debilitating effects.

According to Ghana's mid-year budget review for 2023, Ghana projected an inflation target of 18.9%. However, by August 2023, the inflationary rate was 40.1%, indicating significant challenges faced to control the general price hike. This is a genuine cause for concern because it implies there has been huge erosion of consumer purchasing power; dwindled profit margins; and intense uncertainty, which collectively hamper business operations and growth.
Uncertainty has become the new norm, reflecting in the rapid growth of market fear in various countries. The effects of these are reduced household consumption; tightened business budgets; and overall delayed discretionary purchases.

Rapid increase in the inflation rate from 12.6% in 2021 to 54.1% in 2022; and 40.1% in August 2023 made it challenging for investors to predict market trends.
At this pivotal moment in history, leaders grapple with surging inflation; unpredictable economic dynamics; and geopolitical fractures. We must emphasise the importance of global collaboration; and the imperative of making well-informed policy decisions.

In these dire times, it is essential to acknowledge that we are facing significant challenges. However, it is equally crucial to recognise that these trying times also offer numerous opportunities. It is critical to seize these opportunities; and harness the potential they hold to emerge stronger and more resilient in the face of adversity.

The Silver Lining

Within every challenge is an opportunity, it is important that businesses, especially in the banking industry position themselves strategically to take advantage of any opportunity in the aftermath of the challenges.

Strategies for Leveraging Opportunities

Imagine, for a moment, that

we are sailors navigating a tempestuous sea. The waves are relentless; and the sky is shrouded in dark clouds. It is easy to feel overwhelmed by the storm, but it is precisely during these turbulent times that we can chase the rainbow that emerges after the rain.

In the heart of a crisis, adaptability becomes our compass, guiding us through uncharted waters. Think of it as our ship's rudder, helping us navigate the storm. By welcoming change and nurturing culture of innovation, we can harness the power of adversity to discover new solutions; create innovative products; and pioneer services that set us apart in the ever-changing post-recession landscape.

Imagine your financial resources as sails on our storm-tossed vessel. Prudent financial management is the guiding light that keeps us on course through the darkness. It means trimming unnecessary expenses; staying disciplined with our budget; and making strategic investments that prepare us for the brighter days that inevitably lie ahead. During economic turmoil, there exists a unique opportunity—a chance to acquire valuable assets and resources at historically low prices. Our workforce is the heart of our journey. During recessions, talented individuals seek new horizons. By investing in human capital development, we are nurturing the skills and talents needed to guide our ship towards prosperity. These individuals, like the colours of the rainbow, bring vibrancy and diversity to our teams.

As we navigate this storm and strive to seize the rainbow that follows, one essential strategy stands out; a strategy that not only aligns with our values, but also positions us for long-term sustainability. It's a strategy that mirrors the essence of the rainbow itself —Environmental, Social and Governance principles, or ESG.

Environmental, Social and Governance (ESG)

As we navigate these challenging times, we stand at a critical juncture where success in the financial ecosystem is no longer solely defined by profit margins and market share, but by long-term sustainability.
ESG has progressively emerged as a substantial opportunity for banks and other businesses. Therefore, banks and businesses that proactively embrace ESG principles have the potential to benefit from the opportunities it presents.

As part of the implementation roadmap of the Sustainable Banking Principles (2019), banks in Ghana should be getting ready for full disclosure; and reporting of their sustainability practices in 2024. The issuance of two new sustainability standards by the International Accounting Standards Board (IASB), requires businesses that are IFRS-compliant to make disclosures relevant to sustainability.

The new standards present an opportunity for businesses to critically assess their operations to ascertain their ESG maturity, identify gaps in their sustainability

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practice, and establish the right data governance framework, to enable them to gather the necessary information to generate insightful sustainability reports.

Conclusion

During times of crisis, the financial ecosystem reveals its remarkable resilience and capacity for growth. It is in these moments of turbulence that innovation flourishes; resilience is put to the test; and the foundation for progress is laid. To truly harness the opportunities that arise, we must become architects of change; pioneers of progress; and stewards of a future that transcends the challenges of the present.

Strategically, we can seize these opportunities by fostering innovation; building resilience; and embracing collaboration. Innovation serves as the catalyst for transformative change, driving us to explore new possibilities and redefine financial services. Resilience, on the other hand, provides a competitive edge, enabling us to weather storms and emerge stronger. Collaboration and partnership break down silos, creating a synergy that can unlock new avenues for growth.

> **"Banks and Businesses that proactively embrace ESG principles have the potential to benefit from the opportunities."**

Further, integrating sustainability into our financial practices and embarking on a journey of digital transformation would not only mitigate risks, but also open doors to more sustainable and technologically advanced future. A global perspective, one that considers international markets and trends, enhances our ability to navigate crises and seize opportunities on a global scale.

Empowering individuals and businesses with financial literacy is another vital strategy, ensuring that everyone can make informed decisions; and actively participate in the financial ecosystem's growth.

In unity, we can transform crises into catalysts for growth. As a global community, let us commit to forging a path towards brighter and more prosperous world for all. The phoenix of our financial ecosystem would not just endure but soar to new heights, illuminating the way forward with hope; resilience; and unwavering determination.

Thank you. ☐

Mr. Anthony Sarpong
Senior Partner, KPMG

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Interview with the Director Banking Supervision Division

Banking Ethics, Corporate Governance And Sustainable Banking Practices

Osei Gyasi
Director, Banking Supervision, Bank of Ghana

1. Could you please share some insights into the recent regulatory changes in the financial sector and globally?

On the domestic front, the Bank of Ghana (BOG) has recently issued new directives and guidelines, in accordance with Section 92 of the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930); Section 101 of the Payment Systems and Services Act, 2019 (Act 987); and Section 52 of the Anti-Money Laundering Act, 2020 (Act 1044) on eligible collaterals for banks; corporate governance disclosure; treatment of dormant electronic money accounts and unclaimed balances; and anti-money laundering and combating the financing of terrorism (AML/CFT).

a) The Corporate Governance Disclosure Directive (CGDD) was issued in May 2022 to assess the effectiveness of Regulated Financial Institutions' (RFIs) corporate governance practices; and their risk profiles following the issuance of the Corporate Governance Directive in 2018. The CGDD is aimed at enhancing transparency; market discipline and accountability of institutions to their stakeholders; promoting public confidence and trust in these institutions, and specifying the disclosures that should be included in the RFIs' Audited Financial Statements in line with the requirements of the Corporate Governance Directive.

b) The Supervisory Guidance on Eligible Collaterals under Section 62 of Act 930 was issued by BOG in July 2022 to broaden the scope of eligible instruments that may be considered for collateral purposes as outlined under section 62(8) and (9) of Act 930. It seeks to provide guidance; and to outline the eligible instruments that may be held as "deductible" collateral for the purposes of computing financial exposure to a single counterparty as well as guidance on the determination of secured and unsecured financial exposures; as well as sets supervisory expectation on the approach to management of such collaterals. Broadening of the scope of eligible collaterals would promote economic growth through the granting of credit facilities to the private sector.

c) The Guidelines on the Treatment of Dormant Electronic Money Accounts and Unclaimed Balances was issued in November 2022 to amongst others, Float Holding banks. It is aimed at establishing processes and procedures for reclaim of funds by dormant electronic money account holders or their legal representatives and ensuring funds in dormant electronic accounts are adequately protected.

d) The Guidelines on AML/ CFT, which was developed in collaboration with the Financial Intelligence Centre (FIC) was issued in December 2022 to incorporate recommendations of the Financial Action Task Force (FATF); sound practice as per the Basel Committee on Banking Supervision (BCBS); and other international best practices on AML/CFT. The guidelines also incorporate key elements of Act 1044 and Anti-Terrorism Act of 2008 (Act 762), which include Know Your Customer/ Customer Due Diligence/ Enhanced Due Diligence (KYC/CDD/EDD) measures.

Globally, there has also been recent regulatory developments mostly aimed at addressing emerging risks to the global financial system; and facilitating the implementation of existing standards. In particular, the BCBS, which is the international standard setting body on banking supervision, issued standards on treatment of banks' exposure to cryptoassets (in December 2022); and on effective management and supervision of climate-related financial risks (in June 2022). It also issued high-level considerations on proportionality (in July 2022). The International Sustainability Standards Board

(ISSB), on the other hand, issued guidance on general requirements for disclosure of sustainability-related financial disclosures (IFRS S1) and climate-related disclosures (IFRS S2) in June 2023. In addition, the Core Principles for Effective Banking Supervision (Core Principles) which form a fundamental part of the BCBS' global standards for the sound prudential regulation and supervision of banks and globally used by supervisory authorities as benchmark for assessing the effectiveness of their regulatory and supervisory frameworks, has been reviewed and updated to broadly include supervisory and regulatory developments since the 2012 update, impact of recent structural trends on the banking system as well as lessons learned in implementing the 2012 update to the Core Principles. BoG was a Member of the Task Force that reviewed the Core Principles and the revised version published in July 2023 by the BCBS as a consultative document to solicit inputs and comments from across the world.

a) The prudential treatment for banks' exposures to cryptoassets, which is due for implementation by January 2025, provides robust and prudent global regulatory framework for internationally active banks' exposure to cryptoassets that mitigates risks from cryptoassets; promotes responsible innovation while preserving financial stability; and ensures consistent global regulatory treatment of stablecoins. This is achieved by amongst others, subjecting unbacked cryptoassets and stablecoins with ineffective stabilisation mechanisms to a conservative prudential treatment.

b) The high-level consideration on proportionality provides practical support to supervisory authorities, such as BoG, that are seeking to incorporate proportionality in their domestic regulatory and supervisory frameworks in a way that does not undermine financial stability or the safety of individual financial institutions. It is important to note these considerations are voluntary; and do not, in any way, modify any of the existing Basel standards, guidelines or sound practices. BoG was a Member of the task force assigned to develop this document.

c) The principles for effective management and supervision of climate-related financial risks seek to improve banks' management of, and supervisory practices related to climate-related financial risks. The principles cover corporate governance, internal controls, risk assessment, management and reporting; and provides common baseline for internationally active banks and supervisors; while taking into account the evolving practice and difference in sensitivities of different jurisdictions to climate-related impacts.

d) The ISSB inaugural standards (IFRS S1 and IFRS S2), which would be effective from January 2024, would undoubtedly improve trust and confidence in disclosures on sustainability by corporates and financial institutions; as it creates a common language for disclosing the effect of climate-related risks and opportunities on a company's prospects. The standards incorporate recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which a number of Ghanaian banks and corporates are quite familiar with and have used as the basis for their climate-related disclosures.

2. How are these regulatory changes impacting financial institutions and their customers in Ghana?

We expect the regulatory changes, at the domestic level, to contribute to improvement in the resilience and integrity of the banking industry in Ghana; and increase in consumer confidence in stability of the financial system in Ghana, for which the banking industry is a significant component. This is particularly important as sound and stable financial system is key in enhancing financial inclusion to ensure more sustainable and equitable economic growth, supporting the introduction of innovative and affordable financial products without compromising on financial stability; and improving the quality of governance of banks which should help stem potential bank failures and resulting cost to depositors and the government.

The regulatory changes at the global level, once implemented in Ghana, would potentially impact on the financing of projects or activities that are unsustainable from a climate risk perspective by banks; clarify BoG's position on holding and trading of cryptoassets by financial institutions and the general public; and, where applicable, the prudential treatment of cryptoassets. The ISSB standards would help ensure the quality, reliability and comparability of climate-related disclosures by financial institutions which is key in improving market confidence, safeguarding financial stability and fostering sustainable finance.

3. How could financial institutions keep up with these regulatory changes and ensure compliance?

Financial institutions can keep abreast of regulatory changes by monitoring the announcements and publications by BoG; and relevant standard setting bodies (SSB) such as the Basel Committee, Financial Stability Board (FSB) and International Sustainability Standards Board (ISSB), though more of an accounting standard setting board. To ensure ongoing compliance with the applicable regulations, financial institutions should: (a) train staff on an ongoing basis, especially those working in compliance, risk management, audit functions and other critical functions; and ensure appropriate succession planning is in place to deal with any key risk that could impact on compliance with the regulatory requirements; (b) have a robust process in place for monitoring all upcoming and existing regulatory requirements with this being supported by clearly defined system for allocation of responsibilities and accountability; (c) ensure appropriate senior management and where applicable, board oversight over the functions and committees responsible for ensuring compliance with regulatory requirements; and (d) fostering engagements with BoG on directives and guidelines that have been issued as well as regular engagements with the risk management and compliance functions.

4. What are some of the challenges encountered by financial institutions during implementation of the regulatory changes?

Some of the challenges include lack of clarity on the specific regulatory requirements; limited resources and capacity in some of the more technical functions and departments; technology related issues including the need to adapt the banks' internal system (including development and automation of models) to accommodate the required regulatory reporting requirements; and competing priorities some of which may be critical in ensuring ongoing operational of the financial institution.

5. How could financial institutions ensure effective balance between regulatory compliance, innovation and growth?

These are definitely very tricky trade-offs which financial institutions should take into account, particularly during product design; and when in the development of corporate strategies including decisions to expand to new geographical location, business lines, products and sub-sectors such as insurance and capital markets. While there is no specific approach that we recommend, it is important that financial institutions: (a) involve their compliance, risk management and other relevant technical staff in the product development and testing and also in the strategy formulation; (b) ensure staff in the compliance function and product development have the required experience and expertise; (c) have clearly defined internal product and new business approval process that, besides profitability, also takes into account the relevant risks and regulatory requirements; and (d) ensure effective operation of the three lines of defence in the product development and strategy formulation.

6. Kindly share some examples of how regulatory changes have influenced the financial sector in recent years; and how financial institutions have adapted to these changes.

The implementation of Basel capital standards (Capital Requirement Directive issued in 2018) led to improvements in the quantity (levels) and quality of capital of banks which included the introduction of buffers that were critical in cushioning against the impact of the COVID-19 pandemic; and the more recent Domestic Debt Exchange Programme (DDEP).
The corporate governance directive has also resulted in the improvement of the quality of oversight of banks; and we believe this has helped to stem failures in the banking system.

7. How relevant is clear understanding of regulatory changes to financial institutions; how could these financial institutions be abreast of new and upcoming regulations?

This is very key in ensuring compliance and can be achieved by having an effective process for monitoring the publication by; and communication from the regulatory agencies including BoG, training of staff, ensuring appropriate accountability including through the annual staff performance and development arrangements; and fostering engagements with BoG on newly issued directives and guidelines. We would particularly recommend that financial institutions take time to review the exposure drafts of new directives and guidelines that we usually share with our key stakeholders including financial institutions; and where necessary, provide comments aimed at enhancing them; and ensuring their effective implementation once they are issued.

8. What would be your advice for financial institutions towards effective navigation through the complex regulatory landscape?

My advice would be for them to ensure they appropriately invest in adequate and skilled staff; and where necessary, obtain the services of qualified third parties with local experience to help in the identification, assessment; and tracking of the applicable regulatory requirements, including compliance status. The risk appetite should also

"A sound and stable financial system is key in enhancing financial inclusion to ensure a more sustainable and equitable economic growth, supporting the introduction of innovative and affordable financial products without compromising on financial stability."

be clear when it comes to regulatory and compliance risk; and specifically, there should be zero tolerance on compliance risk. It is also important for the financial institution to maintain contact with BoG through their relationship manager; and seek clarification on any requirements, where there may be some ambiguity.

9. Regulators are expected to act as critical support architecture for financial institutions, as they journey along simple and complex regulatory changes. To what extent do you agree with this assertion?

This is partly true. Regulatory changes, while driven by the regulators, can significantly benefit from input and insights from the financial institutions as they tend to have better first-hand experience on the risks and challenges within the financial sector. It is important however to clarify that the responsibility for complying with regulations lies solely on the regulated financial institutions. Ongoing collaboration between regulators and financial institutions is however key to ensure regulations continue to be fit-for-purpose; and that undue burden, which can in turn be passed over to consumers in form of higher cost and limited product offering, is not placed on financial institutions.

10. Looking to the future, what regulatory changes do you anticipate in the financial sector; what preparatory measures could be rolled-out by financial institutions to accommodate these regulatory changes efficiently and effectively?

We are currently working towards introducing new requirements on outsourcing arrangements; management of climate-related risks by regulated financial institutions; stress testing and management of interest rate risk in the banking book; and credit concentration risk. We shall also be rolling out the outstanding elements of the Basel III framework which include the Pillar 2 requirements to align the banks' minimum capital requirements with their risk profile; liquidity standards and requirements with focus on Liquidity Coverage Ratio (LCR) and other liquidity monitoring tools; and Pillar 3 which focuses on market discipline. Further, to address the risks which manifested during the recent DDEP, we shall be exploring ways to enhance the management and prudential treatment of sovereign exposures; while avoiding any potential unintended consequences that some measures may present. Banks can prepare for these regulatory changes by: (a) actively participating in the consultation process which would provide an opportunity for financial institutions to share their comments and suggestions on the draft regulations; (b) enhancing their risk management capacity and tools with the aim of ensuring all material risks are appropriately identified and managed; and (c) ensuring they maintain adequate capital and liquidity buffers that are commensurate with their risk profile; and risk management capacity.

Thank you.

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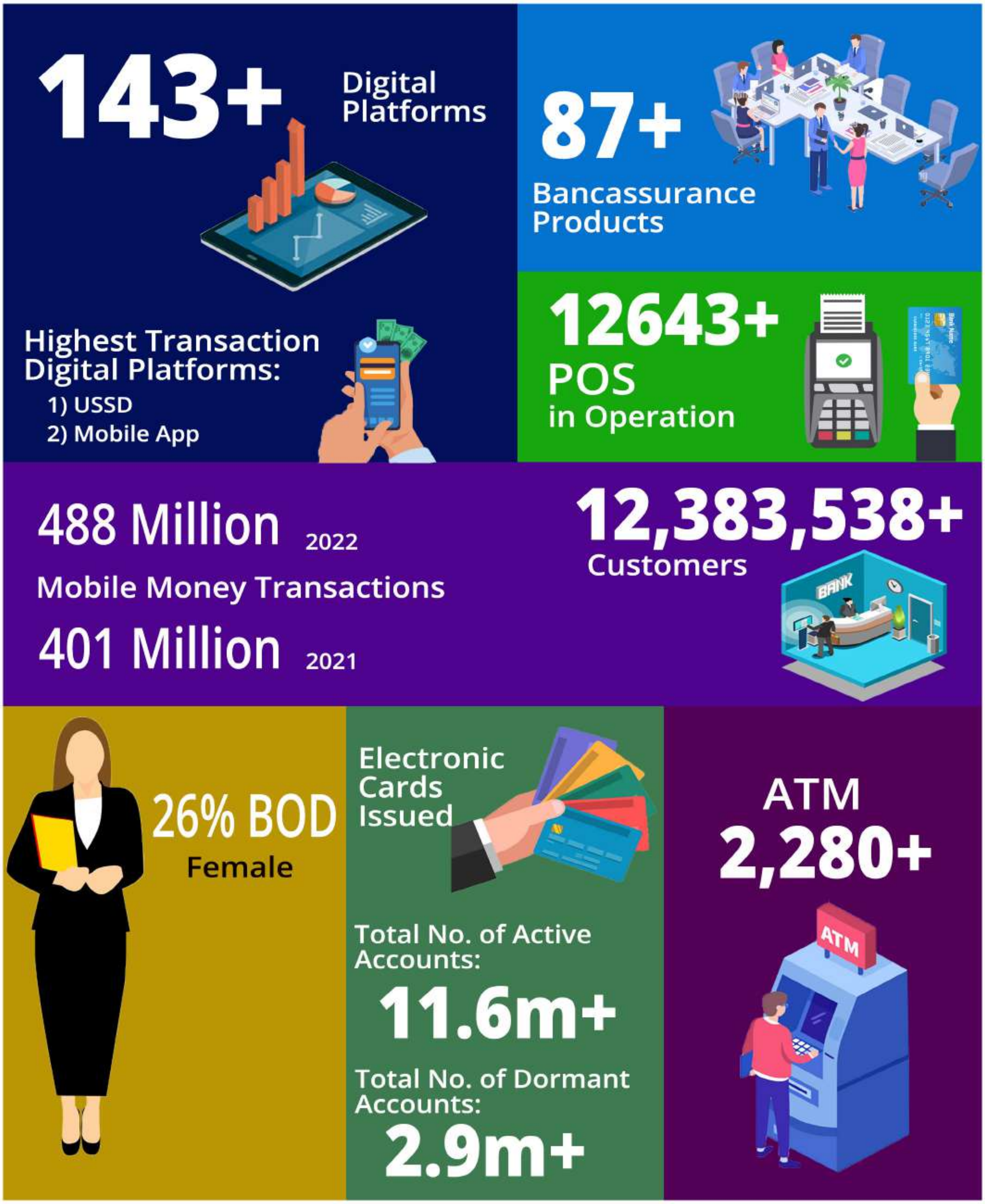
Industry Insights

Banking Industry at a Glance



Source: GAB (2023). Banks' Non-Financial Data

Ghana Banking Industry Performance Indicators

	2018	2019	2020	2021		2022
Total Assets	105 GHS billion	129 GHS billion	149 GHS billion	180 GHS billion	▲23%	221 GHS billion
Total Deposits	68 GHS billion	83 GHS billion	103 GHS billion	121 GHS billion	▲30%	158 GHS billion
Return on Equity	16.9%	20.9%	21.4%	20.6%	▲15%	14.6%
Number of Universal Banks	30	23	23	23	=	23
NPL Ratios	18.2%	14.3%	14.8%	15.2%	-2.6% ▼	14.8%
Profit before Tax	3.6 GHS billion	4.7 GHS billion	6.0 GHS billion	7.4 GHS billion	200% ▼	(7.4) GHS billion

Source: BoG, Summary of Economic and Financial Data 2022.

Banking Industry Insights and Outlook

1

In spite of the turbulent macroeconomic environment, total industry deposit from customers increased from GHS116 billion in 2021 to GHS156 billion in 2022, representing circa 35 percent growth. Total banking assets increased by 19 percent year-on-year to GHS209 billion in December 2022.

Total industry deposit

GHS 116 billion (2021)

GHS 156 billion (2022)

35% growth.

2

The assets base of the banking industry remained solid and continues to grow significantly. However, the top 5 most dominant banks (Ecobank, GCB, ABSA, Stanbic, and Fidelity) controlled 46 percent of industry total assets in 2022 as compared to 45 percent in 2021. Again, these top 5 dominant banks also controlled 46.5 percent of industry

46% **OF INDUSTRY TOTAL ASSETS** IN 2022

46.5% **OF INDUSTRY DEPOSIT** IN 2022

3

The industry remained profitable till the last quarter of 2022 when banks incurred significant losses which were fueled primarily by the domestic debt exchange programme. The industry experienced a loss of GHS7.4 billion before tax in 2022. The loss from CBG, CalBank, GCB, ABSA, and Zenith banks constituted 66.2% of the industry loss.

Total Industry Loss before Tax

GHS 7.4 billion (2022)

4

The banking industry's outlook remains positive, with banks expected to consolidate their performance in 2023. Evidence from the first-quarter financials of banks showed significant recovery as the industry experienced a PBT of GHS3.4 billion. However, the main risk in the banking industry is elevated asset quality concerns amidst contractionary fiscal and monetary policy environment which is aimed at restoring macroeconomic stability under the IMF programme.

Banking Industry Insights

Introduction

After surviving the ravages of COVID-19 from 2020 through 2021, the banking industry in 2022 was once again mildly befogged by the cascading effect of the Russia-Ukraine war, which caused a massive historic energy shock that triggered inflation globally. This, along with the government's inability to meet revenue targets from e-levy precipitated high levels of macroeconomic instability, with debt levels skyrocketing to unsustainable levels. The central bank increased the policy rate by 1250 basis points in 2022 in order to tamp down inflation, which has a bi-directional relationship with interest rates and exchange rates. However, the aggressive monetary policy tightening cycle could not "bowl" over rising price levels; in stark contrast, headline inflation increased from 13.90% in January to a staggering 54.1% in December 2022; public debt-to-GDP ratio surged to 88.77%; and the Ghana Cedi slipped against major international currencies such as the United States dollar, European euro and British pound sterling.

In the midst of all the macroeconomic turbulence, the banking industry remained profitable; and resilient until the fourth quarter of 2022 when another crucible (i.e., the debt exchange programme) emerged. Performance in the third quarter was impressive, as all 17 (out of 23) universal banks that published their financials experienced profit. Year-on-year industry loans and advances to customers; total deposits by customers; total operating income; and profit-after-tax at the end of the third quarter increased by 47.97%; 31.26%; 23.71%; and 18.83% respectively.

Industry performance in the fourth quarter, however, took a nosedive as government finally declared its intention to solicit a bailout or credit facility from the International Monetary Fund (IMF); and discussion on the Domestic Debt Exchange Programme (DDEP) became a necessary evil.

Though DDEP was a bitter pill for the banking industry, the industry understood the exigency; and grave need to support the economy to regain stability which is crucial to the overall existence of the banks. Implementation of DDEP fueled huge impairment losses for the banks, especially those with substantial portion of their investments in government securities. This translated into losses for almost all the banks with the exception of Bank of Africa (BOA), United Bank for Africa (UBA), First Bank of Nigeria (FBN), Société Générale (SG), and Guarantee Trust (GT) Bank who recorded profits. Overall, the industry incurred loss of GH6.02 billion during the 2022 financial year.

After a bruising setback in the banking industry in 2022, the industry exhibited strong rebound and recovery during the first quarter of 2023; causing investors and customers to bask in optimism.

This industry report presents key highlights of banks' performance indicators (i.e., profitability, liquidity, efficiency, asset quality, payment systems, etc.); and the industry's performance on the stock exchange. The report is based on financial data from 22 banks which constitute about 96% of total membership for the banking industry. In essence, the estimates for the 22 banks are representative of the entire industry.

1. Bank of Ghana (2023). Economic Data

2. IMF (2023). World Economic Outlook data

Rankings of 22 Banks compared to their positions in 2021

	List of 22 Banks	Total Assets			Proft Before Tax			Deposits			Loans (Customers)		
		Rank	+/-	GHS mn	Rank	+/-	GHS mn	Rank	+/-	GHS mn	Rank	+/-	GHS mn
1	Ecobank	▲ 1	+1	25,774	▼ 9	-7	(53)	⇄ 1	-	19,590	⇄ 1	-	8,802
2	GCB Bank Plc	▼ 2	-1	21,357	▼ 20	-17	(706)	⇄ 2	-	17,532	▲ 3	+1	5,482
3	Stanbic	▲ 3	+1	18,597	▼ 8	-3	(44)	⇄ 3	-	14,596	⇄ 2	-	6,429
4	ABSA	▼ 4	-1	17,102	▼ 19	-18	(562)	⇄ 4	-	11,177	▼ 4	-1	5,135
5	Fidelity	⇄ 5	-	13,786	▼ 17	-11	(519)	⇄ 5	-	9,393	▼ 8	-1	2,815
6	CBG	⇄ 6	-	10,616	▼ 22	-3	(2,006)	▼ 8	-1	7,868	▲ 9	+5	2,056
7	Standard Chartered	⇄ 7	-	10,367	▼ 14	-10	(384)	▼ 7	-1	8,184	▼ 10	-1	2,050
8	Access Bank	▲ 8	+2	10,057	▼ 16	-6	(441)	▲ 9	+2	7,398	▲ 15	+1	1,640
9	Zenith	⇄ 9	-	9,659	▼ 18	-9	(555)	▲ 6	+2	8,408	⇄ 13	-	1,856
10	CalBank	▼ 10	-2	9,219	▼ 21	-11	(1,080)	▼ 11	-2	6,116	▲ 6	+2	3,190
11	First Atlantic Bank	▲ 11	+4	7,428	▲ 5	+8	22	▲ 10	+3	6,119	▲ 17	+1	1,701
12	ADB	▼ 12	-1	7,413	▲ 12	+3	(364)	▼ 12	-2	5,864	▲ 5	+1	3,242
13	GT Bank	▲ 13	+1	7,133	▲ 1	+8	191	▲ 13	+1	5,629	⇄ 11	-	2,026
14	Societe Generale	▼ 14	-2	6,596	▲ 2	+9	168	⇄ 15	-	4,239	▼ 7	-2	3,102
15	UBA	▼ 15	-2	6,210	▲ 4	+8	91	▼ 14	-2	4,736	▼ 16	-1	1,544
16	Prudential Bank	⇄ 16	-	5,206	▼ 15	-1	(438)	⇄ 18	-	3,375	▼ 14	-2	1,701
17	Republic Bank	⇄ 17	-	5,080	▲ 7	+9	(26)	⇄ 16	-	4,090	▼ 12	-2	1,958
18	UMB	⇄ 18	-	4,771	▲ 13	+7	(366)	⇄ 17	-	3,565	▼ 18	-3	1,164
19	Bank of Africa	⇄ 19	-	3,635	▲ 6	+11	14	⇄ 20	-	2,038	⇄ 19	-	1,048
20	OmniBSIC	▲ 20	+1	3,109	▲ 10	+12	(128)	⇄ 19	-	2,524	▲ 21	+1	676
21	First National Bank	▼ 21	-1	3,068	▲ 11	+10	(341)	⇄ 21	-	1,920	⇄ 20	-	981
22	First Bank Nigeria	⇄ 22	-	2,834	▲ 3	+15	102	⇄ 22	-	1,207	▼ 22	-1	550

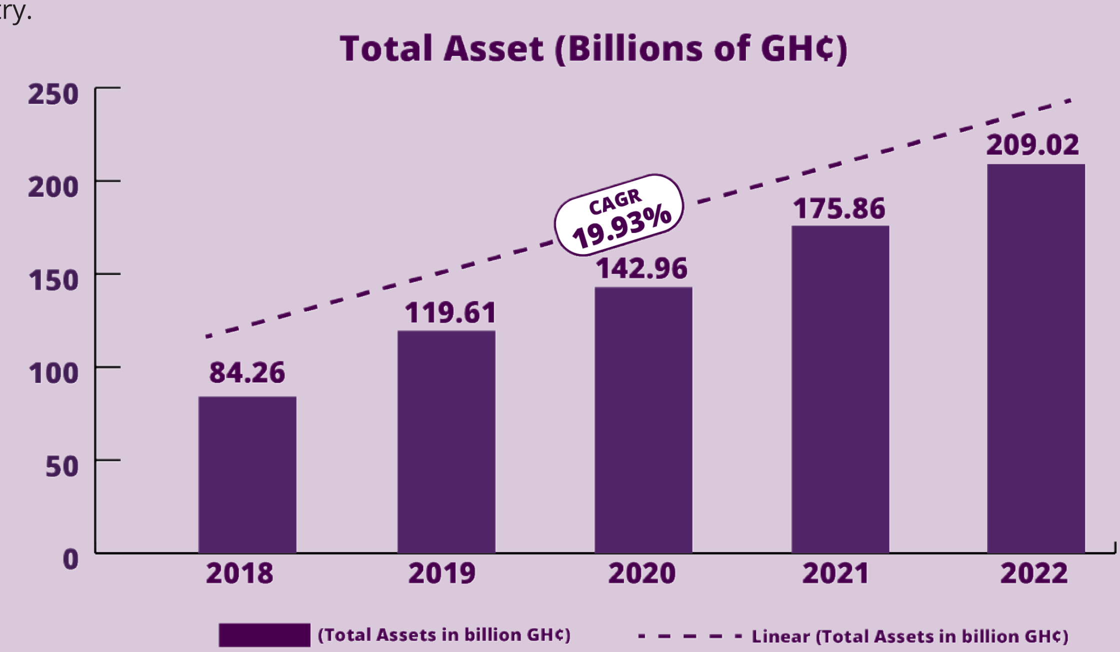
▲ Increase in rank ▼ Decrease in rank ⇄ No change in rank +/- Change in rank compared to 2021

Source: Audited Banks' Financial Statements

Industry Banks' Balance Sheet

Total Assets

Despite the harrowing business environment, all the 22 member banks, with exception of CalBank and CBG experienced surge in total assets during 2022; with Ecobank sitting on top with a whooping GH¢25.8 billion worth of assets. First Atlantic Bank (FAB) recorded the highest percentage increase in total assets (58.9%). From industry viewpoint, total assets amounted to GH¢209.02 billion during 2022, representing 18.86% increase from the 2021 value of GH¢175.86 billion. Cumulatively, total assets for the industry increased by 19.93%, post the clean-up exercise; affirming the resilience and robustness of the industry.

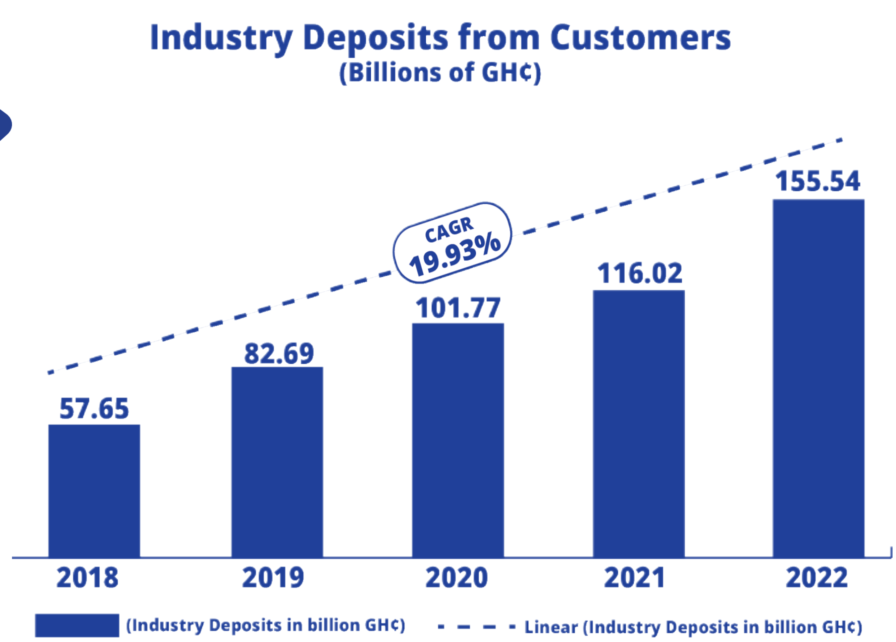


Source: Audited Banks' Financial Statements

NB: Computation based on 22 banks

Deposits

Contrary to expectations that deposits might slip as a result of contractionary macroeconomic environment, deposits by customers inched significantly in all the banks. Further analysis revealed Ecobank recorded the highest (i.e., GH¢19.59 bill.) level of deposits whilst OmniBSIC experienced the highest (74.26%) percentage increase in deposits. Total industry deposits increased from GH¢116.02 billion in 2021 to GH¢155.54 billion during 2022. This plausibly depicts customers' trust in the banking industry as huge potential for asset transmutation for the financial sector.



Source: Audited Banks' Financial Statements

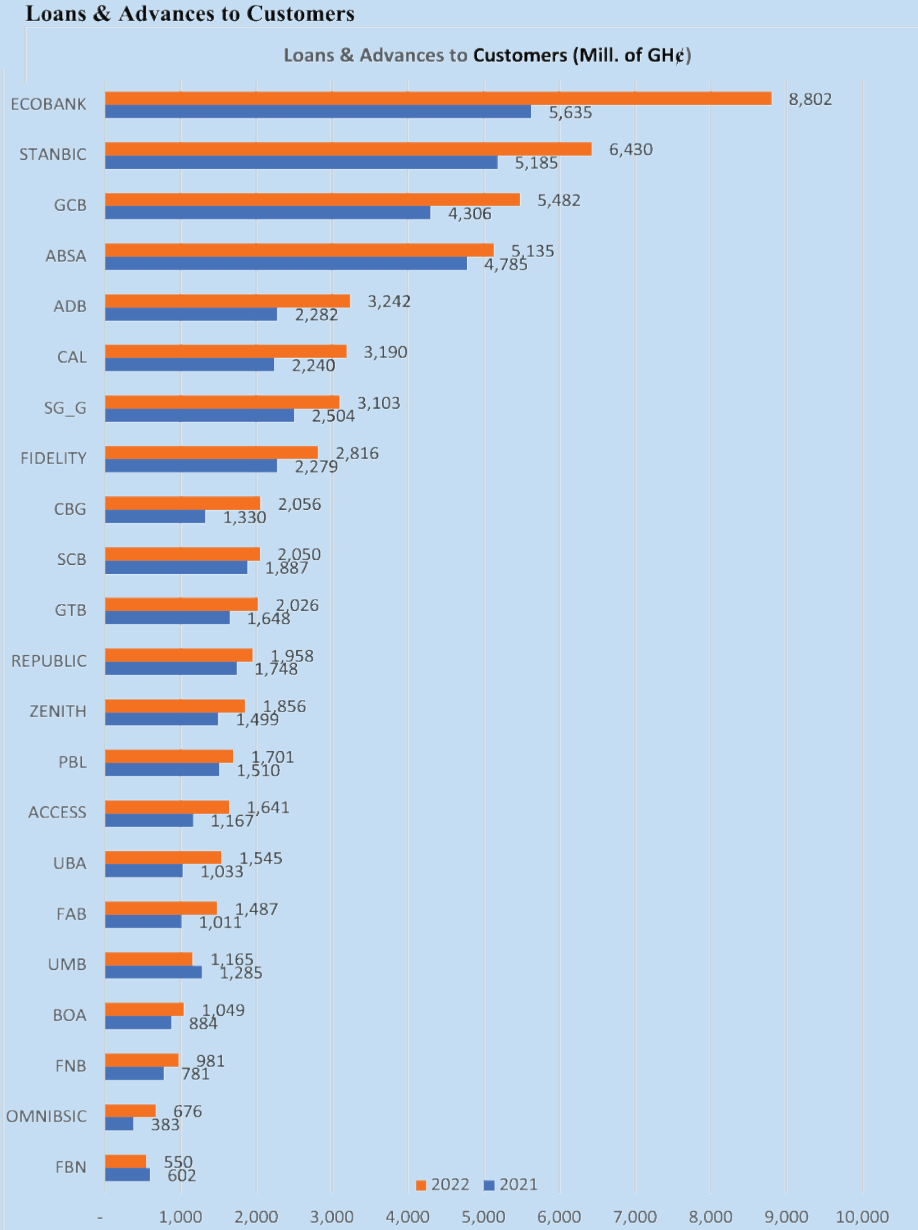
NB: Computation based on 22 banks

Loans & Advances to Customers

Loan and advances to customers remain a major component of the balance sheet that is often used as a basis of determining and assessing the industry's support for private sector development. In prior and recent years, institutions in the banking industry have been subject of criticism for not supporting businesses and industries in the private sector of the Ghanaian economy.

Contrary to the foregoing perception, banks extended significant amount of loans and advances to customers during 2022, despite the unconducive business climate. Trend in the industry's loans and advances to customers pointed up, hitting a staggering GH¢58.9 billion during 2022; and depicting 28.18% increment from its 2021 value of GH¢45.98 billion. At the bank level, Ecobank recorded the highest volume of loans and advances to customers; this was valued at GH¢8.8 billion.

Loans & Advances to Customers



Source: Audited Banks' Financial Statements
NB: Computation based on 22 banks

Profitability Trends

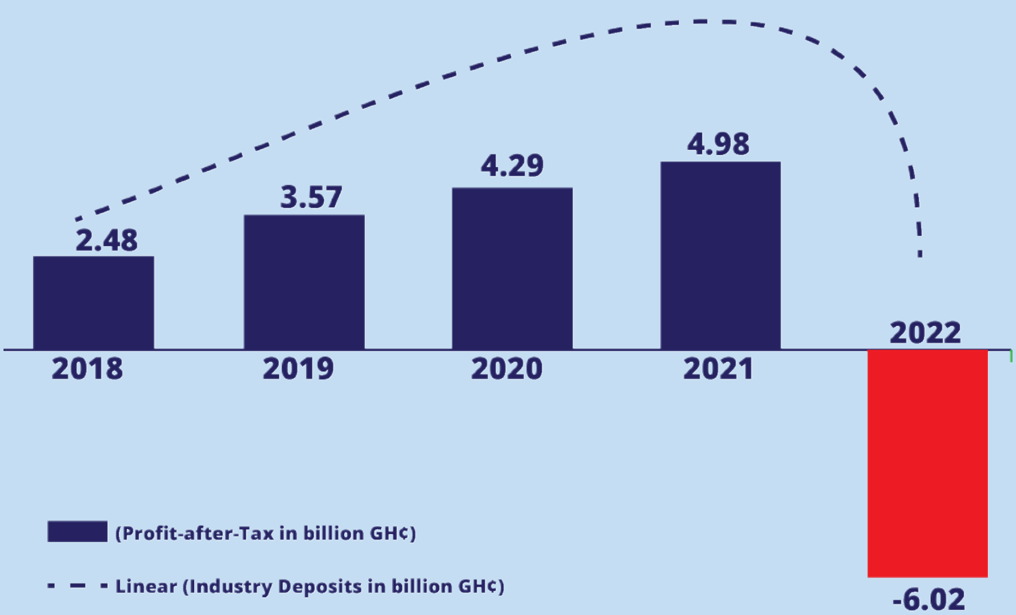
Industry Profit after Tax

Though the assets base of the banks remained strong and promising, the industry's profitability plummeted during the financial year under review. This was partly as a result of the huge impairment losses incurred by banks, owing to government's rollout of the DDE programme. Unlike 2021 where all the banks, with the exception of OmniBSIC, garnered certain amount of profits, the vast majority of member banks experienced losses after tax in 2022.

In spite of the incredible losses from the unfavorable DDE programme and numerous dire economic encumbrances, BOA, UBA, FBN, SG and GT Bank maintained proven outliers; they derived respective profits of GH¢6, GH¢60, GH¢62, GH¢109 and GH¢115 million at the end of financial year 2022. The profits of the aforementioned banks can partly be attributed to their minimal exposure to government securities. There earnings assets were dominated by investment other than government securities, and loan advances to customers.

Collectively, the industry incurred a loss of GH¢6.02 billion in 2022. The loss notwithstanding, the industry rebounded strongly; and at the end of the first quarter of 2023, recorded GH¢2.14 billion in profit after tax.

Industry Profitability
(Billions of GH¢)



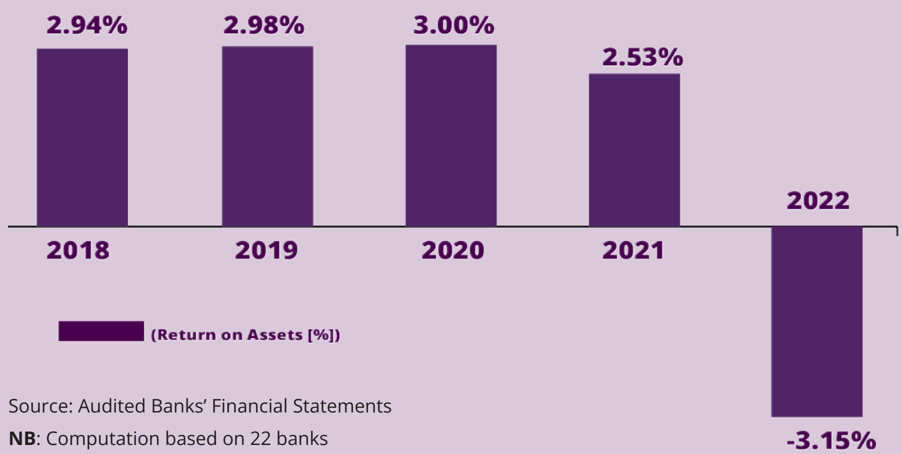
Asset Utilisation and Efficiency Trends

Return on Assets

Like profit, the industry's return on asset (ROA) and return on equity (ROE) were pole-axed by the huge impairment loss incurred by the banks through the DDE progromme; which caused the aforementioned variables to slip by 5.68% and 42.22%, respectively in 2022.

Whilst it may sound so exaggerative that losses incurred; and the fall in ROA, ROE and other performance indicators were caused by the DDE programme, other than factors such as operational inefficiencies, evidence from the net impairment losses affirmed the former. This is because, banks that incurred huge impairment losses experienced the contrarian effect on profit-after-tax, ROA and ROE.

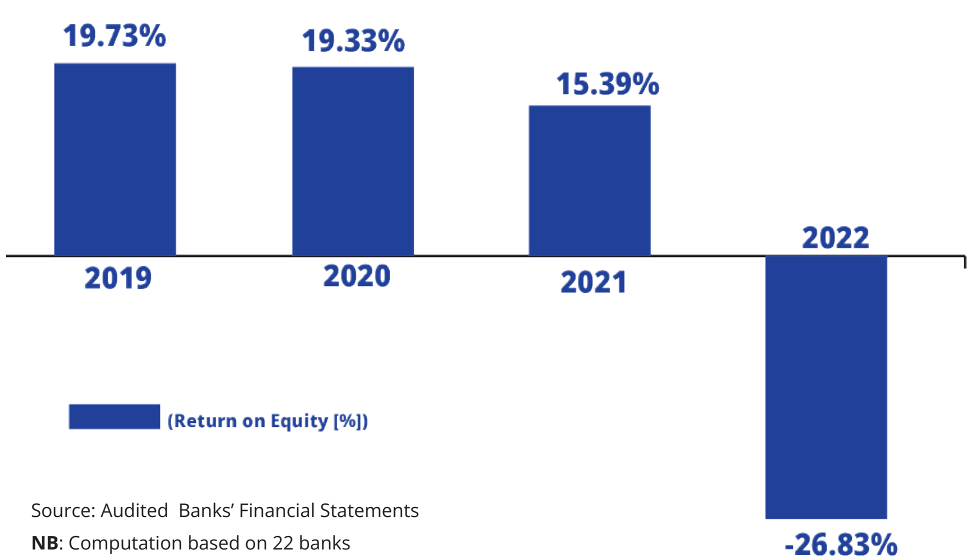
Industry's Return on Assets (%)



Source: Audited Banks' Financial Statements
NB: Computation based on 22 banks

Return on Equity

Industry's Return on Equity (%)



Source: Audited Banks' Financial Statements
NB: Computation based on 22 banks

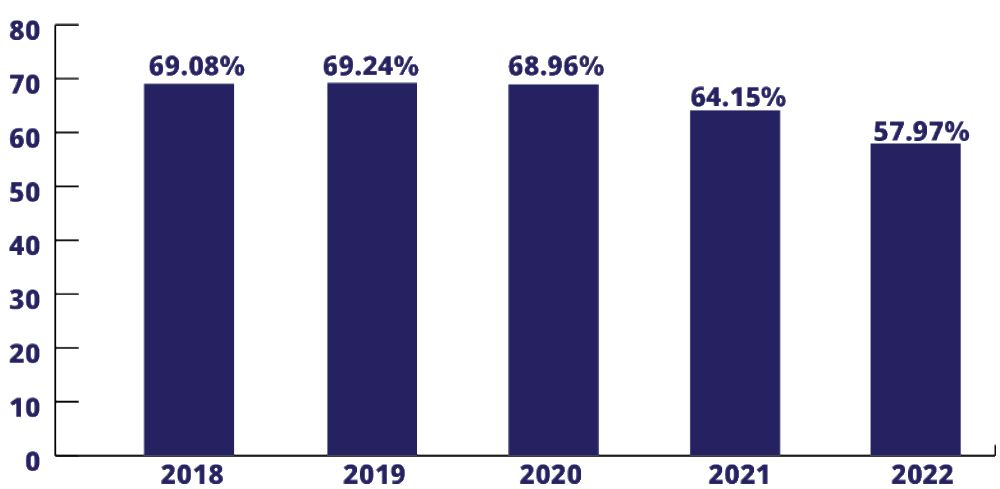
Asset Utilisation and Efficiency Trends

Earning Assets

Earning assets usually include any assets that are directly generating income for the banks. They comprised of banks investments (securities and others) and loan and advances to customers. The asset mix of banks is dominated by loans and advances to customers which constitute the largest proportion of banks' assets. The industry's loans and advances to customers surged to GH¢58.9 billion in 2022 compared to GH¢45.4 billion in 2021. Additionally, loans and advances in 2022 were above investment in securities (which amounted to GH¢55.7 billion). These figures debunked the hue and cry; and the wrong perception of a large section of the public who often accuse banks of not extending loans to customers, but delight in buying and holding government securities. Notwithstanding, it is worth investigating the various sectors where they loans are channeled to.

The industry's earning assets-to-total assets ratio dipped to 57.97% in 2022 compared to 64.15% in 2021. Evidence from the banks financial statement revealed that majority of the banks (17 out of 22) experienced decline in their earning assets ratio in 2022 compared to 2021.

Industry's Earning Assets-to-Total Assets Ratios

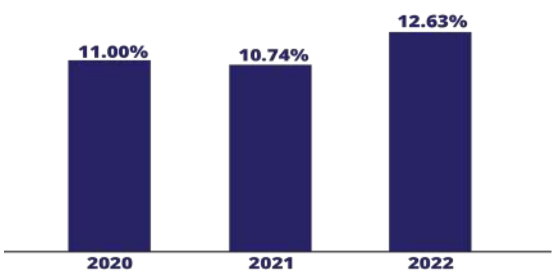


Interest Margins and Interest Bearing Liabilities

Net Interest Margin

Both net interest income and net interest margin for majority of the banks showed marginal increases, affirming the banks' potential to thrive in the short-run. Although the industry's net interest margin has been on the decline for the past two to three years, it appreciated in 2022 to 12.63%; and cemented the Governor of Bank of Ghana's position that the banking industry is robust, resilient and profitable.

Industry's Net Interest Margin (%)



Asset Quality and Financial Soundness Indicators

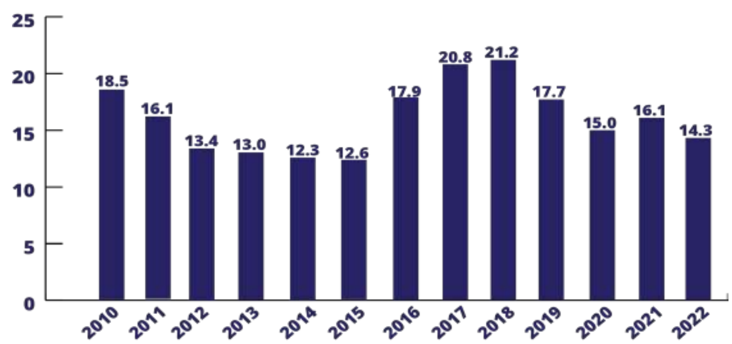
Non-Performing Loans

As indicated earlier, there has been significant growth in deposits by customers; which is clear indication that the financial system holds significant value of funds that can be used to finance private sector investment; and fuel growth in the sector. However, high non-performing loans (NPLs) ratio poses a threat to this economic transmission.

In spite of the challenges, non-performing loans in the banking industry have witnessed considerable improvements in recent years; and this could be attributed largely to enhanced supervision; improved risk assessment; macroprudential regulations; good economic performance, etc.

In 2022, NPLs ratio for the banking industry decreased marginally to 14.3%, from 16.1% in 2021; signaling an improvement. This positive development notwithstanding, it is imperative to maintain formidable credit culture in the banking industry to curb the negative impact of NPLs on banks' operating and other assets.

Industry's Non-Performing Loans ratio



Source: BoG Online database

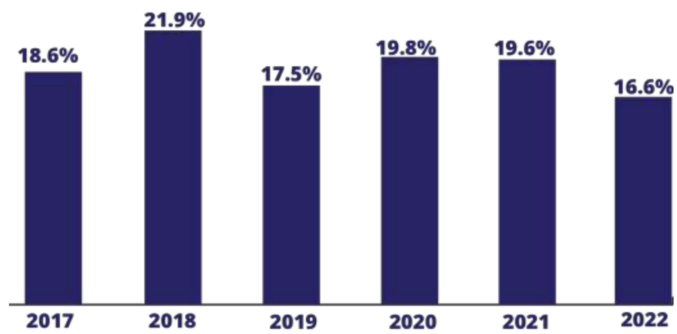
Capital Adequacy Ratio

The average minimum ratio of capital to risk-weighted assets for the banking industry in 2022 dipped slightly from 20.29% (in 2021) to 16.6%. This ratio, however, remained above the minimum buffer thresholds of 8% and 10.5% required under Basel II and Basel III respectively. All member banks, with the exception of Access Bank, recorded lower CAR in 2022 compared to 2021.

Further, ADB, UMB and CBG ended the 2022 financial year with capital adequacy ratios below the minimum capital requirement; suggesting the need for some capital support to stay afloat. Thankfully, the Bank of Ghana is in the process of establishing a Financial Stability Fund that would provide the requisite assistance to banks with weak CARs; and would need buffers to remain liquid and competitive within the industry.

Generally, preponderance of the banks is well-capitalised; and have enough financial cushioning to absorb reasonable amount of losses. The data is indicative of the fact that, depositors' funds are protected; and the industry is stable and efficient. It is however imperative to observe the trend critically to avert any systemic risk that may arise from insolvency.

Industry's Capital Adequacy Ratio



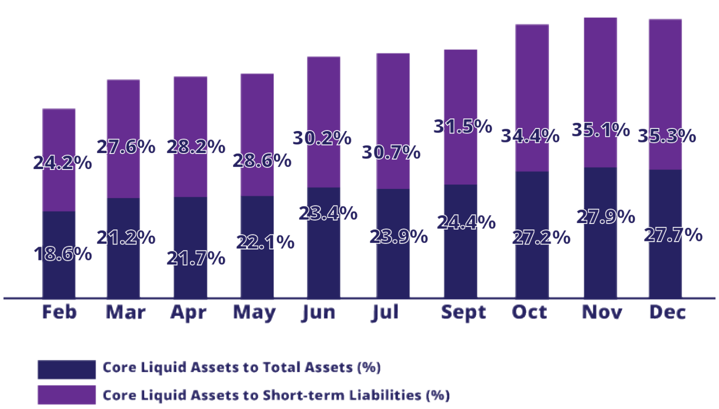
Source: BoG Banking Sector Reports

Liquidity Indicators

The liquidity of the banking industry is crucial for preventing bank runs and their domino effect on the entire financial system. Data on the banking industry in 2022 affirmed the industry's relative liquidity; the average ratio of core liquid assets of banks to short-term liabilities was 30.6%, which remained 4.68% higher than the ratio in 2021 (25.92%). The industry's ratio of core liquid assets to total assets remained 23.8% during the financial year under review.

The average liquidity ratio among the banks (95.38%) was above the required minimum limit for liquidity ratio (11.5%) sanctioned by the regulator. The analysis suggests liquidity of the banking industry remained strong and efficient, in spite of the economic uncertainty; and effects of the DDEP on banking operations during 2022.

Industry's Liquidity Indicators



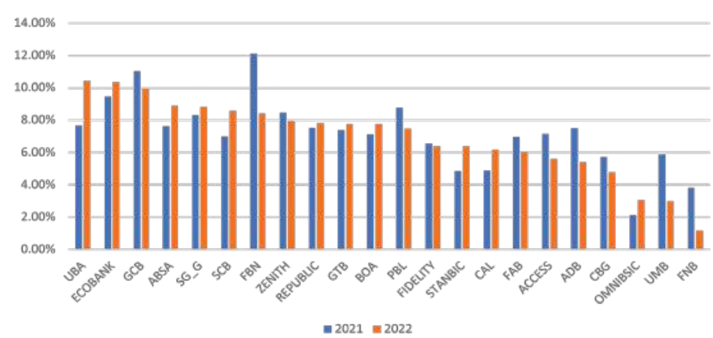
Source: BoG Summary of Economic and Financial Data, 2023

Solvency

The ability of banks to meet their long-term debts and current financial obligations is paramount to the overall health of the banking industry. There are several solvency ratios. However, this report adopted [(net interest income + depreciation) ÷ total liabilities] ratio to measure solvency in the banking industry.

Data on the banks' solvency ratio revealed the presence of more liabilities compared to banks' net income. This may have implications for the banks' capacity to meet their long-term debts and financial obligations. The solvency ratio for all the banks in 2022 (6.92%) was lower than that of 2021 (7.18). UBA recorded the highest solvency ratio of 10.45%, followed by Ecobank (10.36%); with the rest recording less than 10%.

Solvency Ratios - Banks



Source: GAB Analaysis using Banks' Financial Statements

Market Share Analysis

- **% Share of Industry Deposits**
- **% Share of Industry Loans & Advances to Customers**
- **% Share of Industry Assets**

The rankings of the banks as depicted earlier affirm the share of industry deposits, advances and assets are grossly concentrated among the first-six banks. These banks often have more than 50% share of the industry's total deposits, loans and advances; and assets.

The tables below present the market share analysis on the banking industry, taking into consideration each bank's share of industry deposits, loans and advances; and assets. Further, the percentage of industry deposits, advances and assets of the top 10 banks is also outlined in the tables.

TOP 10 Banks' Percentage Share of Industry Deposits in 2022

Rank	Bank	% Share of Industry Deposits	% Change 2021-2022	% Inc. or Dec.
#1	Ecobank	12.59%	1.50%	▲
#2	GCB	11.27%	-0.08%	▼
#3	Stanbic	9.38%	0.82%	▲
#4	ABSA	7.19%	0.34%	▲
#5	Fidelity	6.04%	-0.78%	▼
#6	Zenith	5.41%	-0.10%	▼
#7	SCB	5.26%	-1.25%	▼
#8	CBG	5.04%	-0.78%	▼
#9	Access	4.76%	0.77%	▲
#10	FAB	3.93%	0.68%	▲

TOP 10 Banks' Percentage Share of Industry Loans and Advances in 2022

Rank	Bank	% Share of Loans & Advances	% Change 2021-2022	% Inc. or Dec.
#1	Ecobank	14.93%	2.68%	▲
#2	Stanbic	10.91%	-0.37%	▼
#3	GCB	9.30%	-0.06%	▼
#4	ABSA	8.71%	-1.69%	▼
#5	ADB	5.50%	0.54%	▲
#6	CAL	5.41%	0.54%	▲
#7	SG_G	5.26%	-0.18%	▼
#8	Fidelity	4.78%	-0.18%	▼
#9	CBG	3.49%	0.59%	▲
#10	SCB	3.48%	-0.62%	▼

Source: Audited Banks' Financial Statements

NB: Computation based on 22 banks

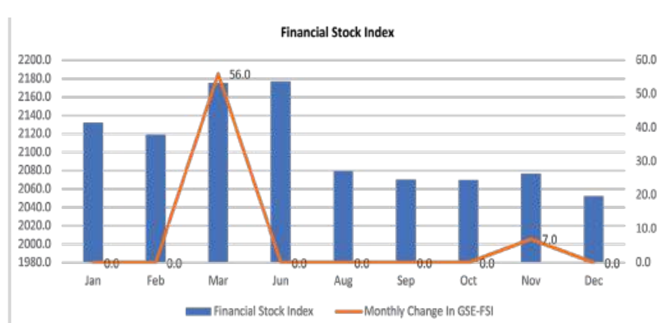
TOP 10 Banks' Percentage Share of Industry Assets in 2022

Rank	Bank	% Share of Industry Asset	% Change 2021-2022	% Inc. or Dec.
#1	Ecobank	12.33%	2.18%	▲
#2	GCB	10.22%	-0.17%	▼
#3	Stanbic	8.90%	0.91%	▲
#4	ABSA	8.18%	-0.94%	▼
#5	Fidelity	6.60%	-1.00%	▼
#6	CBG	5.08%	-1.03%	▼
#7	SCB	4.96%	-0.80%	▼
#8	Access	4.81%	0.57%	▲
#9	Zenith	4.62%	-0.42%	▼
#10	CAL	4.41%	-1.28%	▼

Financial Stocks Performance on the Ghana Stock Exchange

The banking industry's performance on the stock exchange was a true reflection on the various sectors' financial performance in 2022. Financial Stock Index dipped significantly from the third to the fourth quarter of 2022, a period where most macroeconomic variables were unfavourable, coupled with a possible debt restructuring by the government. Market capitalisation of financial stocks also decreased considerably during the period to GH¢14.4 billion.

Financial Stock Index

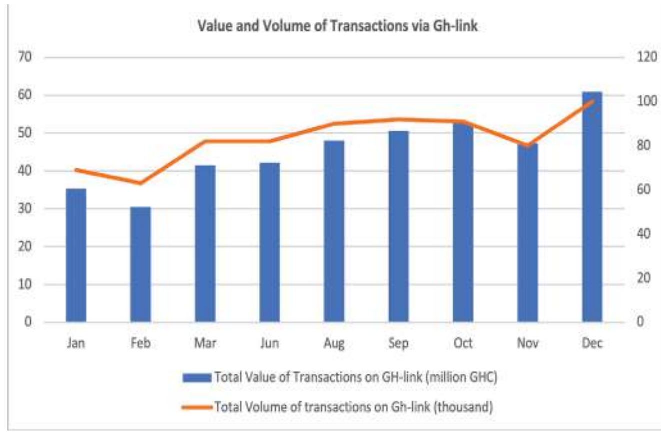


Source: BoG Summary of Economic and Financial Data, 2023

Market Capitalisation of GSE-FSI

Source: BoG Summary of Economic and Financial Data, 2023

Value and Volume of Transactions via Gh-link



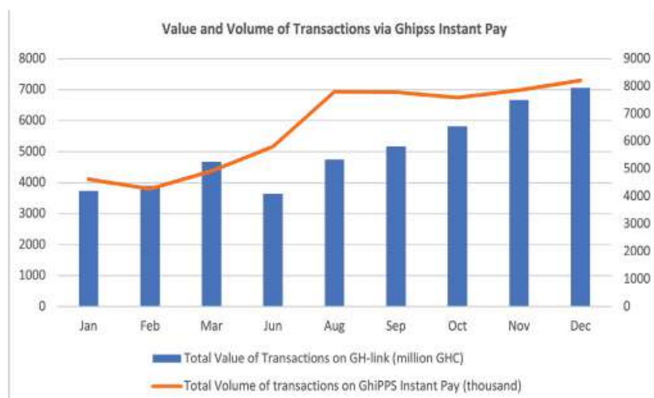
Payment Systems In The Banking Industry

According to the Ghana Association of Banks' CEO, Mr. John Awuah, there is high propensity of banks becoming huge Fintechs in the future. However, the ability to bring this ambition to fruition would depend largely on the level of penetration in the payment systems which have become the foremost approach for banking.

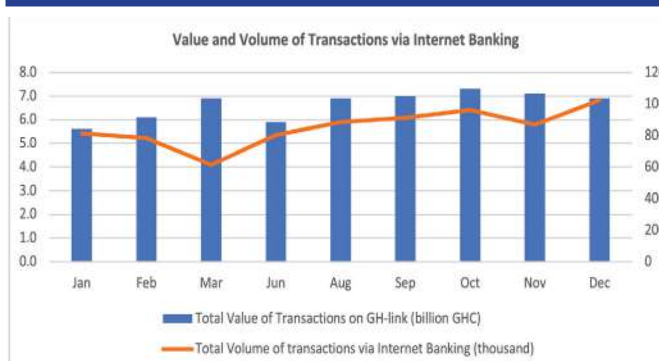
Payment system in the financial sector plays a critical role in promoting financial inclusion; and the velocity of money in the economy. It also serves as the harbinger for determining industry's efforts in creating a cash-lite society.

Shared Figures present the various payment systems that are mostly patronised in the banking industry. Mobile money again tops the chart as the most widely used payment system in the financial sector with average transaction value of GH¢92.89 billion; and average transaction volumes of 431.33 million. Considering the cost of using mobile money to customers, it would be prudent if the banking industry prioritises GhanaPay, so it could get traction to rival other payment systems.

Value and Volume of Transactions on GhIPSS Instant Pay (GIP)

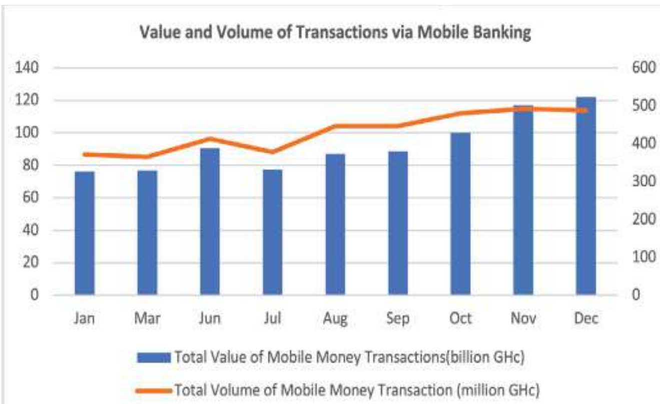


Value and Volume of Transactions via Internet Banking



Source: BoG Summary of Economic and Financial Data, 2023

Value and Volume of Transactions via Internet Banking



Source: BoG Summary of Economic and Financial Data, 2023

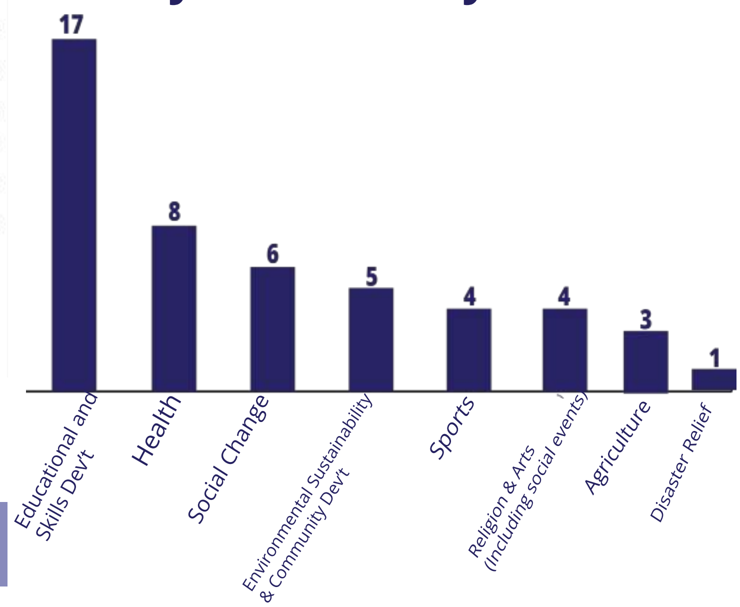
Conclusion

Analysis of banks' financials revealed strong performance of the banking industry during 2022 financial year, despite the huge losses incurred as a result of the implementation of DDEP. The foregoing notwithstanding, the industry, in the first quarter of 2023, showed signs of great recovery from the DDEP in the area of asset quality, liquidity, solvency, profitability; and return on equity. Payment system in the banking industry during 2022 was again, dominated by the use of mobile money and internet banking. These are good prospects for creating cash-lite financial system; and an avenue for financial deepening, broadening and inclusion. Further, increasing use of various payment systems creates the perfect avenue for banks to explore other relatively cheaper alternatives such as GhanaPay.

Further, available data on banks' financials show that liquidity will not be a challenge for the industry, however, some banks likely to battle with capital adequacy issues. However, the implementation of the financial stability fund and government steadfast commitment to the IMF programme will restore macroeconomic stability which will foster a conducive environment for banks to thrive in the short and medium term.

Corporate Social Responsibility

Key CSR Areas by Amount



The commitment of banks towards practical implementation of their corporate social responsibilities to society in recent years cannot be overemphasised. Banks operating in Ghana consistently strive to deepen their relations with communities in which they operate. This is exemplified in the industry's significant contribution to community development efforts and initiatives throughout the country in prior and recent years.

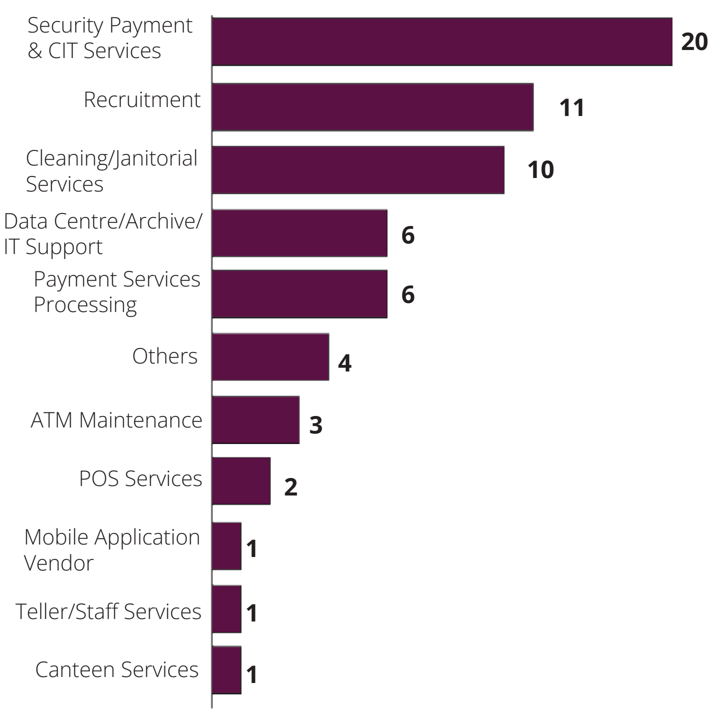
Banks in the industry committed a total of GH¢22 million towards CSR activities in 2021. The banks' contributions provided the requisite support for gender; arts and culture; health; and educational activities in strategic parts of the country. Banks' involvement in CSR activities during 2022 cost the industry GH¢30 million. The high commitment in 2022 (GH¢30 million) relative to 2021 (GH¢22 million) translated into massive support for agriculture; disaster relief; sports; religion and arts, including social events; health; environmental sustainability and community development; social change; education and skills development.

Quality education is needed to ensure sustainable economic success of the country; and assure its global competitiveness in the immediate-, medium- and long-term. This assertion underscored banks' strong support for education and skill development in 2022. The industry's contribution to health and social change was equally significant. This lent strong credence to the banks' belief in the need for healthy population to ensure increased productivity; improved corporate performance; and accelerated growth of the economy.

Banks' Top 3 Outsourced Services

Competitiveness of the global business environment makes it imperative for banks to recognise outsourcing of business functions as integral part of their operations to enhance services delivery; improve operational efficiencies; and minimise overhead costs. In 2022, banks outsourced quite a number of business functions ranging from canteen services, teller/staff services, mobile application vendor; through POS services, ATM maintenance, payment services processing (including USSD); to cleaning or janitorial services, recruitment; security payment and CIT services. The three most outsourced services in 2022 were security payment and CIT services; recruitment; and cleaning or janitorial services.

Banks' Outsourced Services

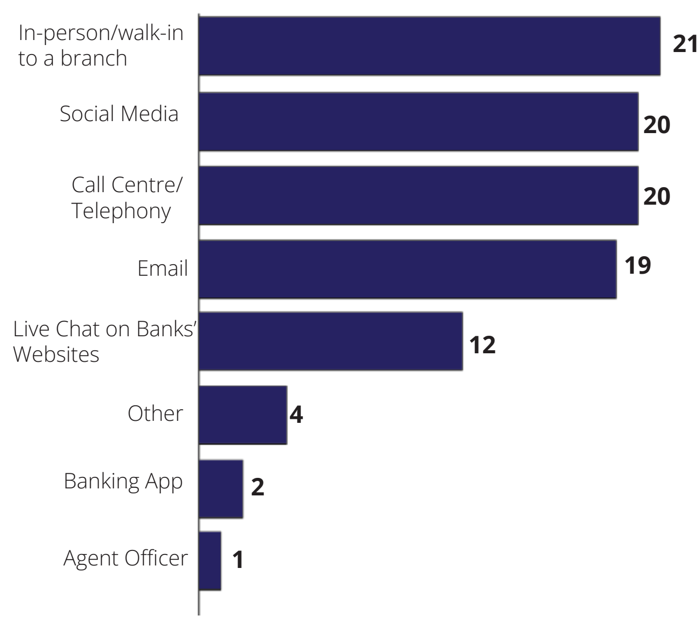


Banks' Top 5 Channels Customers Used in Making Complaints

Complaints provide banks with insight into problems experienced by customers; and how to address them. Further, complaints create the enabling environment for banks to regulate consumer financial products and services; educate and empower customers to make informed financial decisions. Several channels were activated by banks in 2022 for customers to lodge their complaints. These included approaching agent officer; using banking app, email, social media; and in-person or walk-in to a branch, among others.

The top five complaint channels used by customers in 2022 included in-person or walk-in to a branch; social media; call centre or telephone; email; and live chat on bank' website. In spite of the industry's challenges in the last quarter of 2022, occasioned by the government's debt restructuring programme, specifically the domestic debt exchange programme (DDEP), banks remained committed to their corporate social responsibilities. This was in fulfilment of their social contract with communities across the country.

Banks' Channels Used by Customers in Making Complaints



Lawrence Sackey
Research Manager, GAB.

Fraud Trends in the Financial Sector

Review of BoG's Fraud Reports (2019-2022)

Fraud has significant effects on the banking industry, impacting it financially, operationally and reputationally. To start with, banks suffer direct financial losses from unauthorised transactions; stolen funds; and fraudulent loans. The costs of investigating fraud, legal proceedings; and implementing security measures also add to the financial burden. Further, fraud damages the reputation of banks, eroding customer trust; and leading to loss of clientele. Negative publicity surrounding fraud cases could have long-term consequences for a bank's profitability and market position.

Additionally, regulatory consequences arise, as fraud incidents trigger investigations, penalties, fines; and increased regulatory scrutiny, forcing banks to demonstrate effective fraud prevention measures.

Operational disruptions are another consequence of fraud in the banking industry. Responding to fraud incidents requires diverting resources and personnel from critical tasks to carry out investigations; freeze accounts; and implement security measures. These disruptions could inconvenience legitimate customers; and impact the

smooth functioning of banking operations. Moreover, the costs of fraud are often passed on to customers. Increased fees, higher interest rates; and reduced benefits on banking products and services may be imposed to offset financial losses caused by fraud, indirectly impacting customers.

Lastly, the effects of fraud extend beyond the banking industry to the broader economy. Widespread and systemic fraudulent activities could undermine confidence in the financial system; influencing investment decisions; hampering economic growth; and posing risks to the banking industry's stability. To mitigate the effects of fraud, banks employ measures such as robust security systems; improved customer authentication methods; regular risk assessments; customer education on fraud prevention; background check on employees, etc. The above notwithstanding, bank fraud still poses systemic threat to the banking industry; and the entire financial ecosystem, as banking activities are gradually transitioning from the traditional face-to-face banking to tech-driven platforms. This report presents systematic review on fraud reports from 2019 through 2022, taking into consideration key trends, forms; and cost of fraud in the banking industry; and entire financial sector.

Various Forms of Fraud in the Banking Industry

1 Suppression of Deposits

The process of concealing and diverting cash deposits, cheque deposits; or cash received from a customer.

2 Fraudulent Withdrawals

Unauthorised access to the accounts and wallets of clients.

3 ATM/POS FRAUD

Fraudulent use of ATM cards or ATM personal identification numbers (PIN) to withdraw money from another person's account; or stealing directly from the ATM machine by breaking into the machine. It also involves the fraudulent use of another person's debit card number and PIN to withdraw cash from the victim's account; or make unauthorised purchases.

4 Forgery and Manipulation of Documentation

Falsification of authorising signature on a genuine document; or fraudulent alteration of a genuine document in order to inflate the original figure. Manipulation of Accounts and Negotiable Instruments refers to the alteration of negotiable instruments such as payment slips, payment orders, etc.; or diversion of fixed deposit proceeds into private investments. In other instances, staff fraudulently use their profiles to divert money from dormant accounts into private accounts for the perpetrator.

5 E-Money Fraud

Deception perpetrated with electronic money issuer platforms especially, mobile money accounts.

6 Cyber-email Fraud

The act of tricking the email recipient into believing the mail was sent from the actual email account holder (sender).

7 Lending/Credit Fraud

Refers to deception relating to the procurement or delivery of credit. Some of these situations may be where a borrower or credit officer uses the credentials of another person to procure a loan; or where a credit officer falsifies borrower's appraisal to enable him or her qualify for a loan.

8 Cheque Fraud

Describes the unlawful use of cheques for the purpose of acquiring funds illegally.

9 Remittance

Relates to the act of criminals manipulating the international money transfer systems to defraud others.

10 Burglary

Illegal entry into a building with the intention of stealing.

11 Impersonation

The act of pretending to be another person for the purpose of fraud.

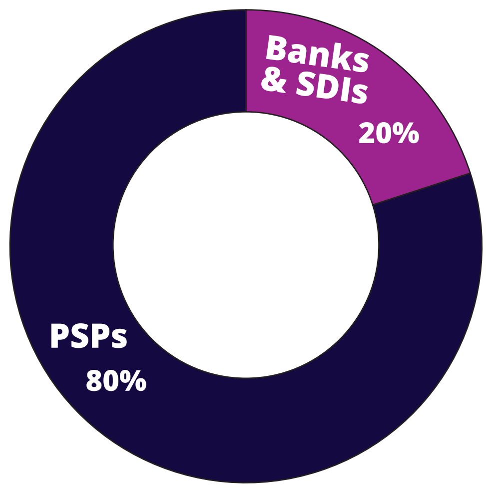
12 Others

Consists of frauds other than the ones mentioned earlier. This report covered general fraud cases in the financial sector; and cases specific to the banking industry.

Summary of Fraud Count in Banks, SDIs and PSPs Industries

Total number of fraud cases for the year 2022 recorded by Banks; Specialised Deposit-Taking Institutions (SDIs); and Payment Service Providers (PSPs) who are regulated by the Bank of Ghana was 15,164. Of this number, PSP industry alone recorded 12,166 cases, representing 80% of the total fraud-count; whiles the Banks and SDIs reported 2,998 fraud cases, which represented 20% of the total fraud-count.

Fraud-Count: Banks & SDIs; and PSPs



Fraud Trends in Banking and SDI Industry

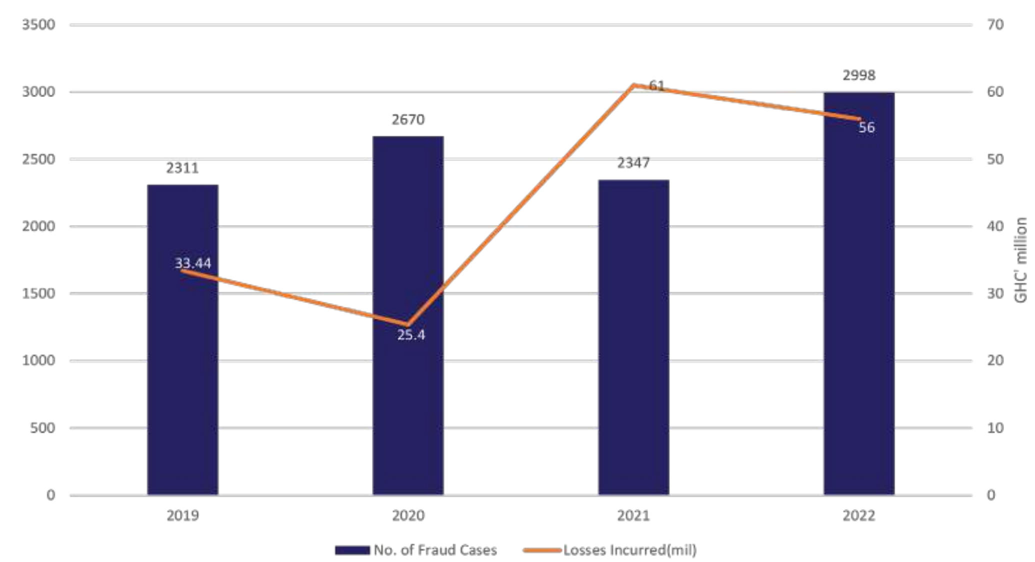
Fraud related to the suppression of deposits (cash theft) remained the predominant areas where most frauds were recorded. Cases in this area increased marginally by 6.01% to 1,622 in 2022. Cases in cyber-email fraud ballooned from 50 cases in 2021 to 422 in 2022, posing series threat to banks' digilisation and cashlite agenda. This was followed by an upsurge in fraudulent withdrawals, which had the highest percentage increase in total count of fraud cases.

Table 1: Count of Fraud Cases

No	Fraud Type	2022	2021	2020	2019	Y-o-Y Change in 2021-2022 (%)	Direction of Change	Proportion of Fraud Type to Total Fraud Count in 2022 (%)	Ranking Based on 2022 Data	Ranking Based on 2021 Data	Ranking Based on 2020 Data
1	Suppression of deposits (cash theft)	1,622	1,530	1,958	1,774	6.01	▲	54.10	1	1	1
2	Fraudulent withdrawals	347	19	177	16	1726.32	▲	11.57	3	12	2
3	ATM/POS fraud	9	106	168	110	(91.51)	▼	0.30	11	5	3
4	Forgery and manipulation of documentation	62	255	151	157	(75.69)	▼	2.07	6	2	4
5	E-money	149	116	126	14	28.45	▲	4.97	5	3	5
6	Cyber - email fraud	422	50	28	112	744.00	▲	14.08	2	7	6
7	Lending/credit fraud	29	43	18	36	(32.56)	▼	0.97	8	8	7
8	Cheque fraud	32	113	16	40	(71.68)	▼	1.07	7	4	8
9	Remittance	1	20	10	8	(95.00)	▼	0.03	12	10	9
10	Others	13	52	9	29	(75.00)	▼	0.43	10	6	10
11	Burglary	27	23	6	7	17.39	▲	0.90	9	9	11
12	Impersonation	285	20	3	8	1325.00	▲	9.51	4	10	12
	Total	2,998	2,347	2,670	2,311	27.74	▲	100.00			

Source: BoG Fraud Reports 2019, 2020, 2021, & 2022

Number of Fraud Cases and Losses Incurred



Source: BoG Fraud Reports 2019, 2020, 2021, & 2022

Total Value of Reported Fraud Cases

Total value of reported fraud cases increased by 45.09% to GH¢165.4 million in 2022. However, GH¢109 million (i.e., ~66%) was recovered, which was significant improvement over the previous year (2021) where only GH¢52.9 million (i.e., ~46%) was recovered. Though cyber & email fraud was the second highest category of fraud cases reported, it recorded the highest value of fraud cases, which amounted to GH¢68.7 million. Fortunately, GH¢64.3 million (93.3%) was recovered. The situation under forgery and manipulation was however worrying; only GH¢1.4 million (3.96%) was recovered from the total value of GH¢34.4 million. (see Tables 2 & 3 for details).

Table 2: Total Value of Fraud Cases

		Reported Fraud Values (GH¢'000))									
No	**Fraud Type**	**2022**	**2021**	**2020**	**2019**	Y-o-Y Change in 2021-2022 (%)	Direction of Change	Proportion of Fraud Type to Total Fraud Count in 2021(%)	Ranking Based on 2022 Data	Ranking Based on 2021 Bata	Ranking based on 2020 Data
1	Suppression of Cash	4,942.32	5,569.57	4,094.07	5,054.8	(11.26)	▼	2.99	7	5	6
2	Fraudulent Withdrawals	8,686.68	1,227.96	3,015.42	1,532.2	607.41	▲	5.25	5	8	7
3	ATM/POS Fraud	96.25	23,395.70	8,420.49	10,962.2	(99.59)	▲	0.06	11	2	4
4	Forgery and manipulation of documentation	34,438.68	53,256.32	8,551.99	37,283.2	(35.33)	▲	20.82	2	1	3
5	E-money	8,929.84	4,071.50	1,925.96	592.6	119.33	▲	5.40	4	6	8
6	Cyber - email fraud	68,699.83	3,251.78	273,880.58	50,542.0	2012.68	▲	41.53	1	7	2
7	Lending/credit fraud	342.99	10,125.04	680.14	1,401.9	(96.61)	▼	0.21	9	4	10
8	Cheque Fraud	5,345.36	473.57	6,106.80	3,084.2	1028.74	▲	3.23	6	10	5
9	Remittance	65.6	139.68	80.99	118.9	(53.04)	▼	0.04	12	12	11
10	Others	32,209.99	450.74	700,980.03	3,547.9	7046.02	▲	19.47	3	11	1
11	Burglary	266.96	596.91	1,354.59	709.3	(55.28)	▼	0.16	10	9	9
12	Impersonation	1,379.10	11,439.69	62.87	687.6	(87.94)	▼	0.83	8	3	12
	Total	**165,403.60**	**113,998.46**	**1,009,153.91**	**115,516.80**	**45.09**	▲	**100.00**			

Source: BoG Fraud Reports 2019, 2020, 2021, & 2022

Table 3: Total Value of Fraud Cases and Recovered Values

FRAUD TYPES	Jan-Dec 2021			Jan-Dec 2022			Percentage Change in Loss Values from 2021 to 2022
	Reported Fraud Values (GH¢'000)	Recovered Values (GH¢'000)	Successful/ Loss Values (GH¢'000)	Reported Fraud Values (GH¢'000)	Recovered Values (GH¢'000)	Successful/ Loss Values (GH¢'000)	
ATM/CARD Fraud	23,395.7	545.04	22,850.67	96.25	61.93	34.32	(98.85%)
Cheque Fraud	473.57	101.35	372.22	5,345.36	303.81	5,041.55	1254.46%
Cyber & E-mail Fraud	3,251.78	596.8	2,654.98	68,699.83	64,304.51	4,395.32	65.55%
E-Money Fraud	4,071.5	827.38	3,244.12	8,929.84	8,142.46	787.39	(75.73%)
Forgery & Manipulation of documents	53,256.32	45,652.77	7,603.55	34,438.68	1,363.79	33,074.89	334.99%
Fraudulent withdrawals	1,227.96	605.93	622.04	8,686.68	1,601.13	7,085.55	1039.09%
Lending/ Credit Fraud	10,125.04	1,899.22	8,225.81	342.99	67.85	275.14	(96.66%)
Impersonation	11,439.69	1,117.44	10,322.25	1,379.10	39.91	1,339.18	(87.03%)
Cash Theft (Suppression of Cash)	5,569.57	1,302.51	4,267.06	4,942.32	978.96	3,963.36	(7.12%)
Burglary	596.91	23.5	573.41	266.96	5.25	261.71	(54.36%)
Remittances	139.68	25.95	113.73	65.6	-	65.60	(42.32%)
Others	450.74	164.99	285.76	32,209.99	32,184.37	25.62	(91.03%)
Total	**113,998.45**	**52,862.86**	**61,135.59**	**165,403.6**	**109,053.97**	**56,349.63**	**(7.83%)**

Source: BoG Fraud Reports, 2022

Trends and Analysis

Banking Industry

Forgery and Manipulation 1

Total lossed as a result of forgery and manipulation in 2022 stood at GH¢33 million (i.e., GH¢34.4 million – GH¢1.4 million). Of this amount, universal banks booked losses of GH¢32 million.

Fraudulent Withdrawals 2

Out of a loss of GH¢7 million (i.e., GH¢8.6 million – GH¢1.6 million), universal banks accounted for 98% of the value; while savings and loans industry accounted for the remaining 2%.

Cheque Fraud 3

For total losses of GH¢5.1 million (GH¢5.3 million – GH¢0.3 million), universal banks recorded a loss of GH¢5million; while rural and community banking industry incurred the rest of the losses.

Cyber/Email Fraud 4

Cyber/email fraud recorded a loss of GH¢4.3 million (GH¢68.6 million – GH¢64.3 million); and universal banks were mostly affected by these losses. Considering the increasing nature of cyber/email fraud, the central bank issued Cyber and Information Security Directive in 2018 to combat the threats.

Implications for Banks' Digitalisation and Cashlite Agenda

Customers may now have the propensity to decline the usage of banks' digital platforms. This would inadvertently add up to the operational cost of banks; and cost of transactions to customers.

Implications for Deposits, Savings Culture and Account Closure

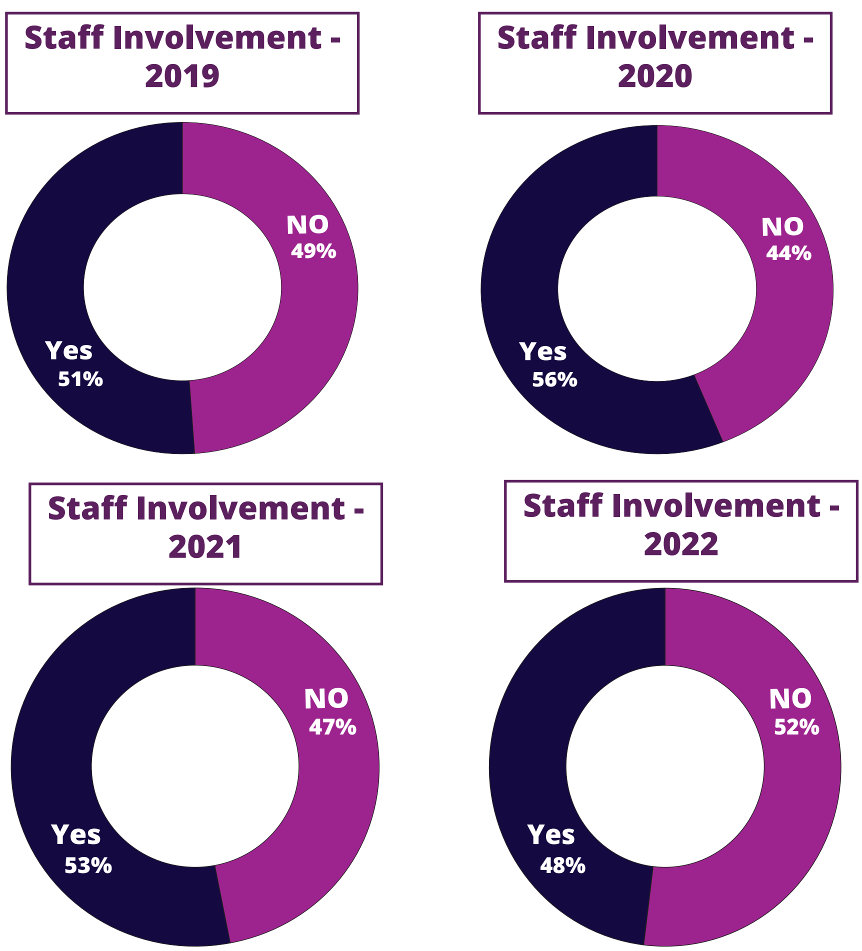
1) Increasing fraud cases would discourage savings; and this would cause deposits for asset transmutation to plummet.

2) Customers who are victims to fraud may have the proclivity to close their account; and advise their friends, families, colleagues, etc., to do same. This has the potential of degenerating into a bank run.

Staff Involvement in Fraud Cases: Implications

The three most prevalent frauds in the banking and SDI space are suppression of deposits (54.10%), cyber/email fraud (14.08%) and fraudulent withdrawals (11.57%). The afore-mentioned frauds constitute approximately 79.75% of the total frauds recorded among financial institutions. According to the Financial Stability Department of the Bank of Ghana, these frauds, especially suppression of deposits; and fraudulent withdrawals mostly have staff involvement. Figure 3 below presents the percentage of staff involvement in fraud from 2019 through 2022. Staff involvement poses systemic threat; and dampens customers' trust and confidence in the sector. However, there was a significant decline in staff involvement in fraud cases in 2022. This according to the FSD was as a result of the improvement in internal controls of Banks and SDIs; severe punishment of culprits, and background checks of all prospective temporary and permanent employees.

Staff Involvement Statistics



Remedial Measures by the Regulator and Banks

Measures by BoG

- Issuance of cybersecurity directives for banks
- Issuance of new fraud directives to banks and SDIs
- Establishment of Financial Industry Command Security Operations Centre (FISOC)

Measures by Banks

- Stiff punishment of perpetrators
- Improvement in internal controls
- Background checks on employees Information sharing
- Enhanced staff and customer awareness on emerging fraud types

Way Forward

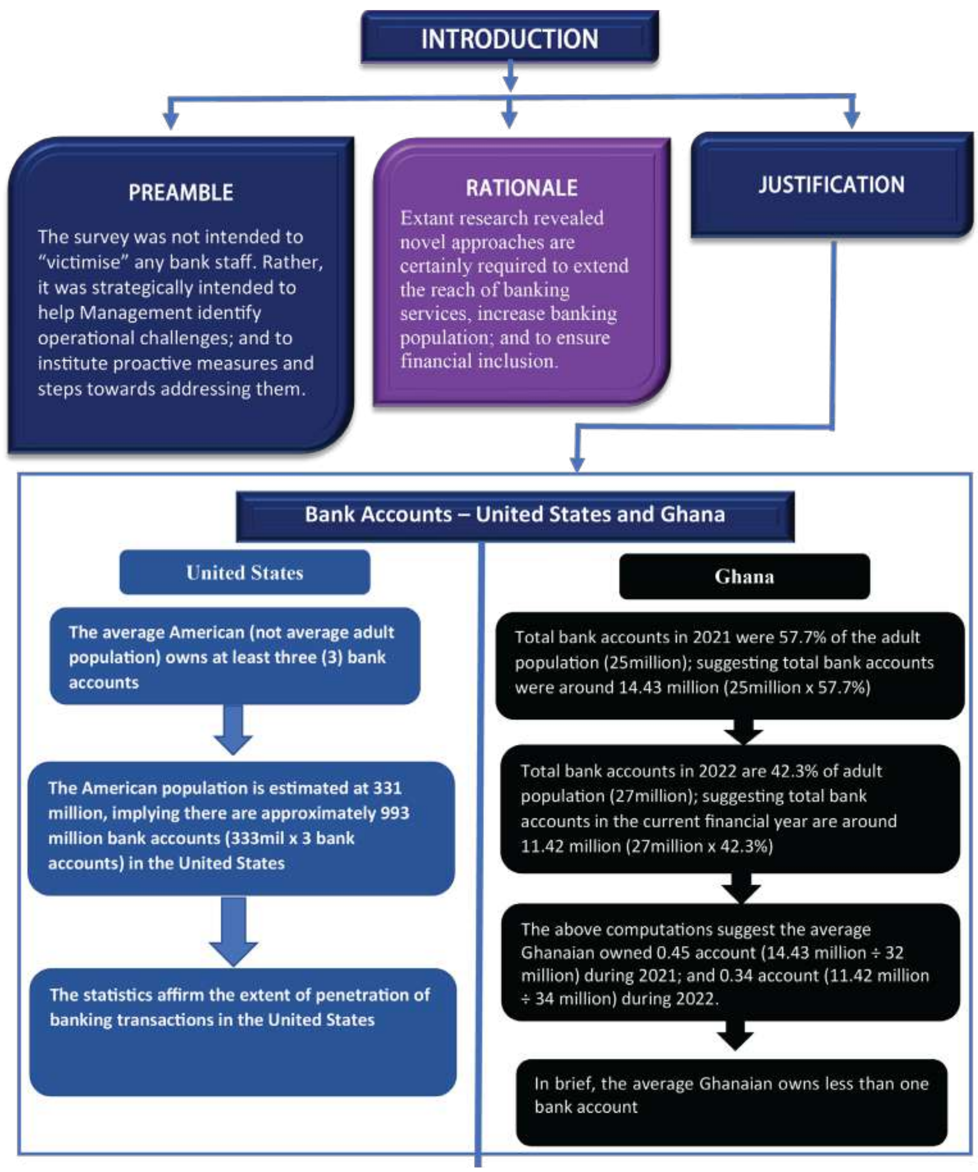
- Severe punishment to perpetrators
- Stringent monitoring and supervision
- Financial education for customers
- Speedy adjudication of fraud cases
- Staff training
- Multi-factor and advanced authentication
- Fraud detection systems
- Collaboration and information sharing
- Strong internal controls

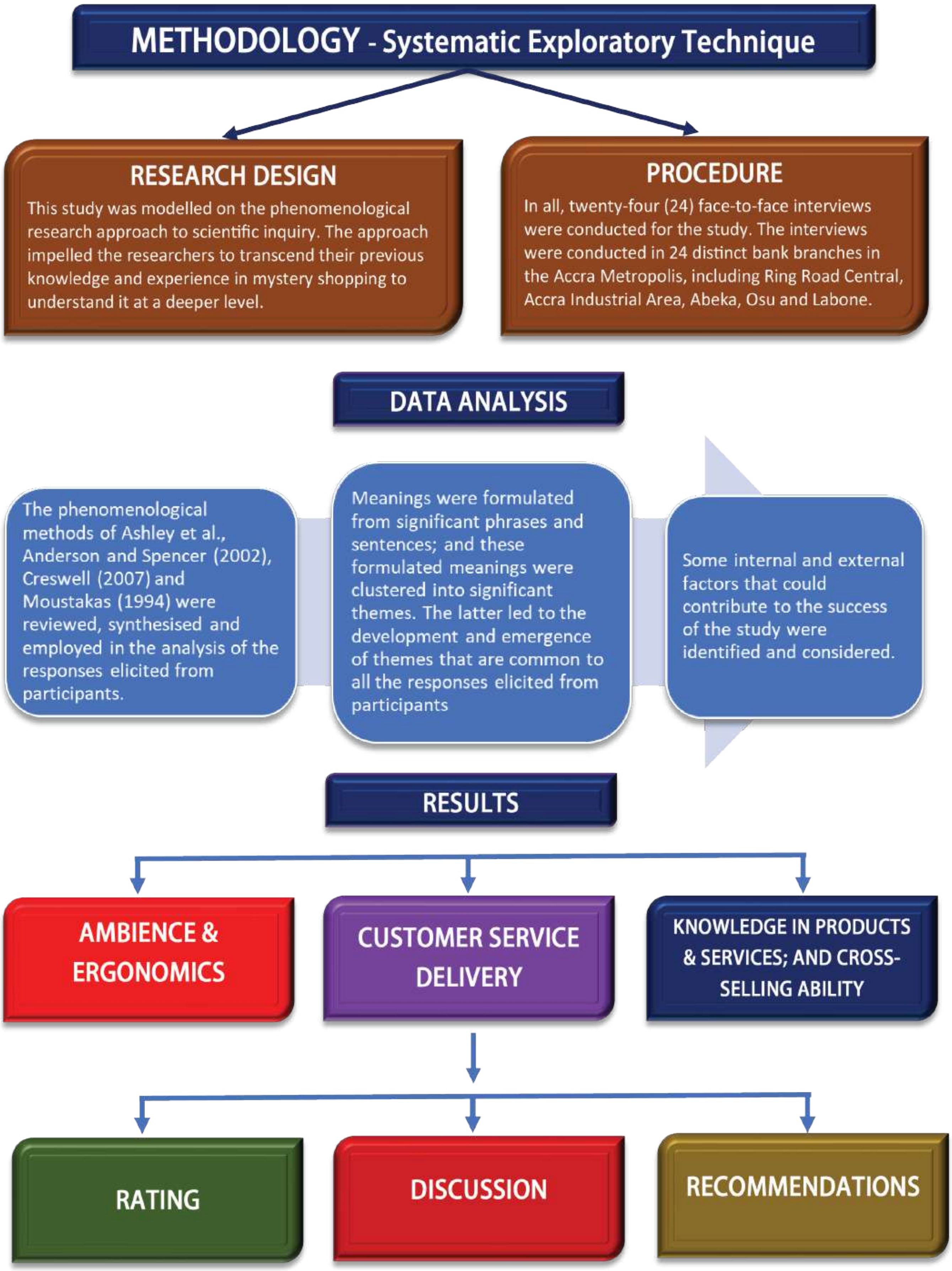
Lawrence Sackey
Research Manager, GAB.

Mystery Shopping Report

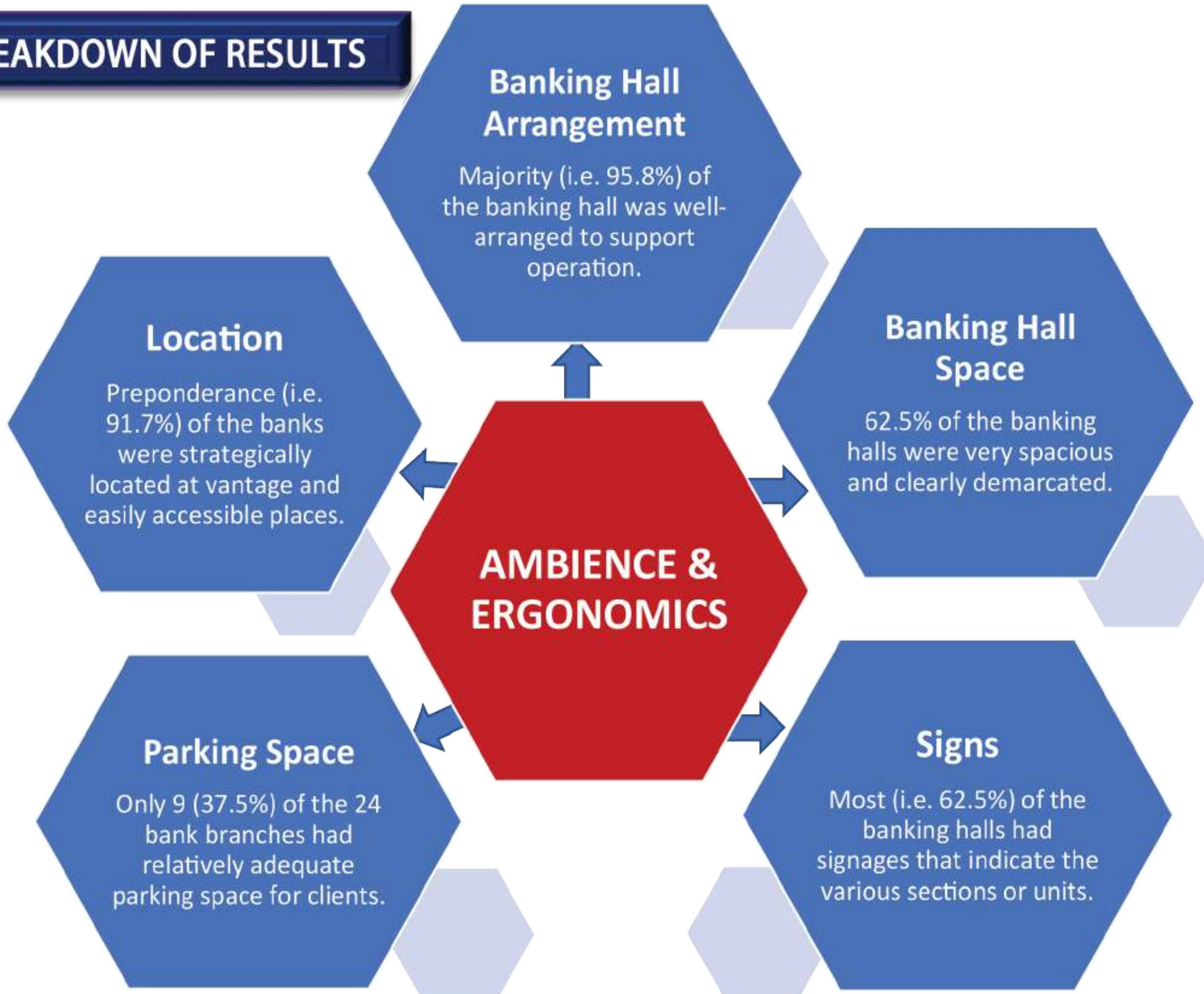
This section presents key highlights from a Mystery Shopping Survey conducted in 2022 by GAB Research using 24 banks within the Greater Accra Metropolis.

> **Your most unhappy customers are your greatest source of learning**
>
> Bill Gates




METHODOLOGY - Systematic Exploratory Technique
RESEARCH DESIGN
This study was modelled on the phenomenological research approach to scientific inquiry. The approach impelled the researchers to transcend their previous knowledge and experience in mystery shopping to understand it at a deeper level.
PROCEDURE
In all, twenty-four (24) face-to-face interviews were conducted for the study. The interviews were conducted in 24 distinct bank branches in the Accra Metropolis, including Ring Road Central, Accra Industrial Area, Abeka, Osu and Labone.
DATA ANALYSIS
The phenomenological methods of Ashley et al., Anderson and Spencer (2002), Creswell (2007) and Moustakas (1994) were reviewed, synthesised and employed in the analysis of the responses elicited from participants.
Meanings were formulated from significant phrases and sentences; and these formulated meanings were clustered into significant themes. The latter led to the development and emergence of themes that are common to all the responses elicited from participants
Some internal and external factors that could contribute to the success of the study were identified and considered.
RESULTS
AMBIENCE & ERGONOMICS
CUSTOMER SERVICE DELIVERY
KNOWLEDGE IN PRODUCTS & SERVICES; AND CROSS-SELLING ABILITY
RATING
DISCUSSION
RECOMMENDATIONS

BREAKDOWN OF RESULTS



CUSTOMER SERVICE DELIVERY

Courtesy and Friendliness

- Majority (91.7%) of the relationship officers were very courteous and friendly.

Willingness and Desire to Serve

- 21 (91.7%) of the relationship officers were willing and ready to provide the requisite services.

Availability of Services Requested

- 18 (75%) of the banks had all the products and services requested.

Knowledge in Products & Services; and Cross-selling Ability

General Knowledge in Banks' Product.

Majority (75%) of the relationship officers had general knowledge in their respective banks' products and services.

In-depth Knowledge in Banks' Products and Services

Only 17 (70.8%) had in-depth knowledge in their respective banks' products and services.

Bank Staff Cross-Selling Ability

Cross-selling among the customer service providers was abysmal. Only 6 (25%) of the relationship officers demonstrated good cross-selling skills.

RATING

Average overall rating for the 24 bank branches:

74%

Percentage of banks with ratings below the average rating:

54.2%

Percentage of banks with ratings above the average rating:

45.8%

DISCUSSION

Means of Identification

- In all the 24 banks, Ghana card remains the only form of identification required for account opening; potential customers without Ghana card cannot open new accounts.
- The requirement is in strict compliance with the Bank of Ghana Directive on the use of the Ghana Card as the sole identification card for banking transactions.

Service-provider Identification

- Wearing of name tag was identified as a challenge in many branches.
- The study revealed non-panic withdrawal and indifferent interest of customers in T-bill related transactions.
- Stability of the local currency is severely impacted by over-the-counter forex transactions.

Cross-selling Ability

- Cross-selling is needed to accelerate operational efficiency and effectiveness; and to assure higher financial turnover; while stimulating the economy and increasing financial growth and inclusion.
- GhanaPay ads were not rigorous in many bank branches.

RECOMMENDATIONS

Wearing of Name Tags & GhanaPay

- Banks' staff should be encouraged to wear name tags close to their chest to ease their identification; and to stimulate interaction with clients.
- Management is urged to encourage GhanaPay ads in the various bank branches to inch the nation closer to its quest for financial inclusion spearheaded by the banking industry.

Capacity Building for Relationship Officers (ROs)

- ROs should be abreast of current happenings on the use of the Ghana Card; and how to obtain same. This information should be effectively communicated to customers.
- ROs should constantly liaise with corporate communications for essential updates; and share same with existing and potential customers.

Motivation of Employees

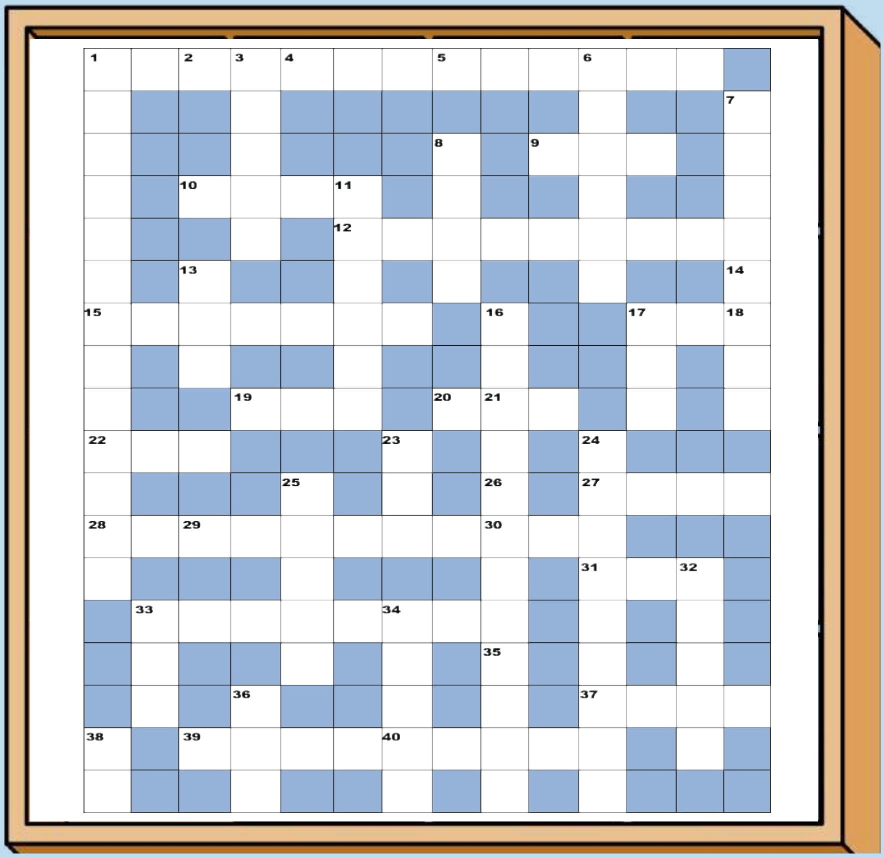
Management should consistently encourage and motivate staff to accelerate their drive towards increasing the banking population and financial inclusion through training and provision of incentives.

Digitisation and Internet Banking

Since most of the banks have inadequate parking space for their clients, it is imperative that banks improve, broaden and secure digital banking, so customers would not necessarily have to come to the banking hall for products and services.


Xpress POINT
Ecobank
The Pan African Bank
Xpress POINT
Ecobank
The Pan African Bank

Puzzle



Developed by Maclean Obeng Amoamah

Clues

ACROSS

1. Abbreviated name of the Regulator of the Banking industry in Ghana (3)
2. Abbreviated name of the oldest indigenous Bank in Ghana (3)
3. The rate decided by the Central Bank that banks use when deciding how much to charge for lending money is known as _ _ _ _ Rate. (4)
4. The Governor of the Bank of Ghana is Dr. _ _ _ _ _ _ Kwamina Yedu Addison. (6)
5. A Cheque that cannot be honoured because the person who issued the Cheque had no money or not enough money in the Bank Account is termed _ ______ _ Cheque. (3)
6. The Chief Executive Officer of the Ghana Association of Banks is Mr. _ _ _ _ Awuah. (4)
7. A specialised type of recruitment which is aimed at attracting highly skilled senior management talent to an organisation is known as _ _ _ _ _ _ _ _ _ Search. (9)
8. Age of the oldest indigenous Bank (7)
9. Number of women on the Governing Council of the Ghana Association of Banks (3)
10. The Ghana Association of Banks (formerly Ghana Association of Bankers) was formed on 29th _ _ _ , 1980. (3) The only 24/7 Teller (3)
11. Abbreviated name of the universal bank established by Act 286 in 1965 as the Agricultural Credit and Co-operative Bank (3)
12. Find the missing letters: The latest member of GAB is the _ _ velopment _ ank _ hana. (4)
13. Find the missing letters: _ apital _ dequacy _ atio measures the ability of a Bank to meet its obligations by comparing its capital to its assets. (3)
14. The Ghana _ _ _ _ _ _ _ _ _ Rate for June 2023 was 26.89%. (9)
15. Find the missing letters: _ oints _ f _ales are systems that allow clients of a Bank to effect transfers of funds from their Bank accounts and other financial transactions at retail or sale establishments. (3)
16. The Act that regulates the Banking industry is the Banks and Specialised Deposit-Taking Institutions Act Nine Hundred and _ _ _ _ _ _, Act 2016. (6)
17. Find the missing letters in the name: The First Deputy Governor of the Bank of Ghana is Dr. _ _ xwe _ _ Opoku-Afari. (4)
18. In alphabetical order of their names, the last Bank (6)
19. Number of Banks with the word "FIRST" in their names (5)
20. Find the missing letters in the name: The Vice-President of the Ghana Association of Banks is Mr. Daniel _ _ _ key. (3)
21. Human _ _ _ _ _ _ _ refers to the pool of knowledge, skills and other human qualities possessed by individuals that contribute to their productivity. (7)
22. A letter prepared by an Auditor which discusses findings and recommendations for the improvement of internal controls which were identified during the audit; and are not required to be included in the auditor's report is called Management _ _ _ _ _ _ . (6)

DOWN

23. The distribution of insurance products and insurance policies of the insurance companies by banks as corporate agents through the bank's branches is referred to as _ _ _ _ _ _ _ _ _ _ _ _ _ . (13)
24. Find the missing letters: Ele _ _ _ _ _ ic Banking is a service that allows an account holder to obtain account information and manage certain banking transactions through a personal computer via the financial institution's website on the Internet. (5)
25. The measure of a company's net income divided by its shareholders' equity is termed Return on _ _ _ _ _ _ . (6)
26. Find the missing letters: The oldest indigenous bank in Ghana, is _ _ _ _ _ ty years. (5)
27. When the amount of money withdrawn from a bank account is more than the amount actually available in the account, the excess is known as an _ _ _ _ draft; and the account is said to be overdrawn. (4)
28. Madam Mansa _ _ _ _ _ _ is the President of the Ghana Association of Banks; and is the first female CEO of Standard Chartered Bank, Ghana, in the Bank's 120-year history in Ghana. (6)
29. Find the missing letters: _ gricultural _ alue _ hain is the integrated range of goods and services necessary for an agricultural product to move from the producer to the final consumer. (3)
30. A loan which is in default because the borrower has not made the scheduled payments for a specified period is referred to as _ _ _ -Performing Loan. (3)
31. Find the missing letters: A tax charged on an individual's total income (income from employment, business and investment) is referred to as _ erson _ l Income _ ax. (3)
32. Find the missing letters in the name: The first Governor of Bank was the former Managing Director of the Bank of the Gold Coast; and accomplished Scottish Banker, Mr. Alfred Eggles _ _ _ . (2)
33. According to Article 16(1)(b), the Bank of Ghana may revoke a license issued under Section 12, where the Bank or Specialised Deposit-Taking Institution fails to commence business within _ _ _ year from the date the license was issued. (3)
34. Number of Licenses Bank of Ghana issues under Article 8(3) of the Banks and Specialised Deposit-Taking Institutions Act (3)
35. Find the missing letters: Lab_ _ _ is the amount of physical, mental and social effort used to produce goods and services in an economy. (3)
36. Find the missing letters: The Government of Ghana launched the _ omestic _ ebt _ xchange _ rogramme on 5th December, 2022 as an invitation for the voluntary exchange of approximately GH¢137 billion of the domestic notes and bonds of the Republic for a package of New Bonds to be issued by the Republic. (4) Ghana's Minister for Finance is Mr. Ken _ _ _ _ _ - Atta. (5)
37. Corporate G _ verna _ ce is the structure of rules, practices and processes used to direct and manage an organisation. (2)
38. Find the missing letters: The vision of the Ministry of Finance is: "To be the lead Eco _ om _ c Ma _ ag _ ment Institution for development and prosperity for all Ghanaians." (4)
39. A system used to settle financial transactions through the transfer of monetary value is termed _ _ _ _ _ _ _ System. (7)
40. A _ _ _ _ _ company is a company that has no physical presence in the country in which it is incorporated and licensed; and also not associated with a regulated financial service organisation that is subject to effective consolidated regulation. (5)
41. The minimum Capital Adequacy Ratio shall be at least _ _ _ percent. (3)
42. Penalties charged by the Lender when a loan is paid off before the end of its term is called _ _ _ _ Fee. (4)
43. Find the missing letters: According to Article 17(2) of the BSDTI Act, the BoG shall keep and maintain the C _ n _ _ _ _ Register in which shall be recorded (a) the name, head office and branch office addresses of the licensed banks or specialised deposit-taking institutions; (b) licences which have been revoked; and (c) any other information that the Bank of Ghana may determine. (5)
44. Find the missing letters in the name: The Second Deputy Governor of the Bank of Ghana is Mrs. _ lsi _ _ ddo _ wadzi (4)
45. Find the missing letters: According to the Bank of Ghana Act, 2002 Act 612, one of the functions of the BoG is to promote, regulate and supervise payment and settlement _ _ _ tems. (3)
46. Reputational Risk is the threat or danger to a business when it fails to meet the expectations of its stakeholders; and therefore, negatively perceived. (3)

Find Answers to the Puzzle on Page 188

Featured Articles

Leveraging Finance to Unlock the Potential of SMEs for Economic Growth and Transformation in Ghana

Prof. Peter Quartey

Head, Economics Division at the Institute of Statistical, Social and Economic Research (ISSER), University of Ghana.

Introduction

Small- and medium-sized enterprises (SMEs) play an important role in both developed and developing countries in terms of promoting economic growth; innovation; and employment creation. They are known to facilitate business access to new markets; and help to improve livelihoods. This important role can be achieved if they are better financed; and provided the enabling environment to flourish. SMEs are often classified as firms with small number of employees (5-19 employees); and modest or respectable sales revenue levels.

Small firms dominate the African business landscape since they account for approximately 90% of all enterprises in Africa; and are the primary drivers of growth, owing to their ability to create employment, improve income; and thereby, Gross Domestic Product (GDP). They are critical for economic growth because they are easily adaptive to changing needs; and serve as avenues for the transmission of innovation and technology.

SMEs form the backbone of the Ghanaian economy, accounting for around 92% of enterprises, producing over 80% of employment; and contributing nearly 70% of Ghana's GDP (Addae-Korankye et al., 2021; Abor & Quartey, 2010). They operate in a range of industries, including agriculture, manufacturing, services and technology; while they promote innovation and increase production. SMEs also contribute to intra-regional development by boosting economic activity outside of metropolitan regions; and reducing rural-urban migration.

According to an ITC (2016) research, domestic sales form the bulk of SMEs' revenue in Ghana, which ranges from $26,000 to $1,022,000 (in Ghana cedi equivalent) annually. They thrive under difficult circumstances, yet they form the backbone of Ghana's private sector. The challenges facing this sector are varied, but some are biting; and require urgent attention. This publication discusses the key challenges facing SMEs; focuses on the issue of finance and how to leverage this to promote SME development in Ghana.

Challenges Facing SMEs in Ghana

Despite their ability to introduce innovation, accelerate economic growth and create jobs, the myriad of challenges facing SMEs prohibits them from growing; and

1 Other definitions include sales volume, assets etc. (see Quartey and Kayanula, 2002)

becoming viable. The numerous constraints include limited access to finance and high cost of credit; high taxes; poor infrastructure; high operating expenses; lack of competent personnel; constrained market access; and lack of business support services as well as inability to find trustworthy suppliers; to mention, but a few (see Ussif and Salifu, 2020; Abor & Quartey, 2010; Muriithi, 2021).

Although these factors impede growth and job creation potential of SMEs, major and significant impediment to the rapid expansion of businesses is the limited access to finance; and associated high costs. This publication acknowledges importance of the other challenges; or impediments to SME growth in Ghana, but focuses on the issue of limited access to finance at business-friendly cost.

Access to cheaper sources of finance has been highlighted as a critical component for small- and medium-sized businesses to succeed in their efforts to increase productive capacity, compete, generate employment; and contribute to poverty reduction in developing nations. Small- and medium-sized businesses cannot buy or absorb new technology without finance; nor can they grow to compete in global markets or form commercial alliances with larger corporations. The majority of SMEs do not have the capacity to submit financial reports and collateral requirements, although they may have a bankable project.

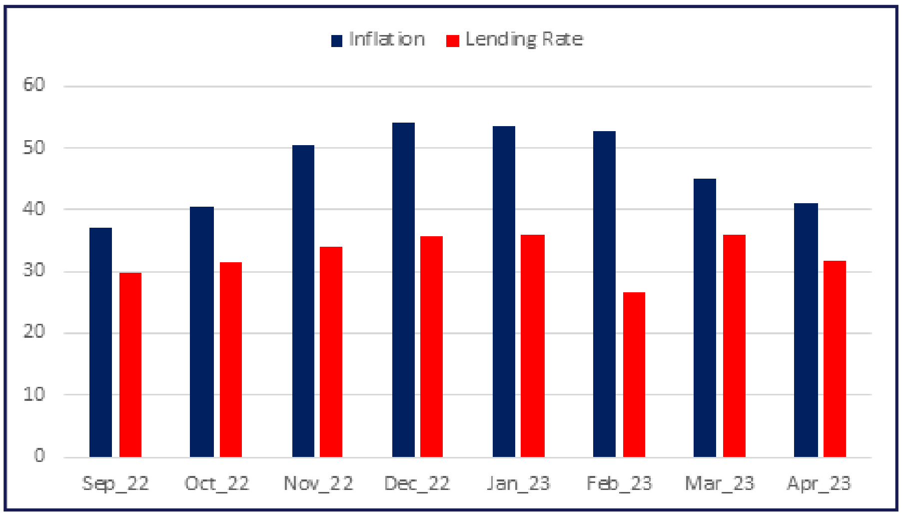
Consequently, they are frequently overlooked by banks, preventing them from obtaining the required funding to actualise their operations. SMEs therefore struggle to invest in equipment, inventory, marketing; and expansion because they lack sufficient finances at reasonable interest rates.

Therefore, access to finance at reasonable cost is the most significant limitation impeding the operations and expansion of SMEs in Africa, compared to other regions of the globe where the problem is minor. For instance, data from Bank of Ghana indicated, although Domestic Money Banks (DMB) credit grew (year-on-year) by 37.13% in January 2023, the growth slowed down thereafter; and by April 2023, growth was 19.77% (BoG Statistical Bulletin, April 2023).

Meanwhile, the same data indicate about a third of private sector credit goes to finance the services sector; while manufacturing receives about 10% of credit. Also worrying is the cost of credit; average lending rate was about 32% and it calls to question how firms could manage such high interest rates after paying for other operating cost; and remain in business (see Figure 1).

"Access to cheaper sources of finance has been highlighted as a critical component for small- and medium-sized businesses to succeed in their efforts to increase productive capacity, compete, generate employment; and contribute to poverty reduction in developing nations."

Figure 1: Lending Rates - September 2022 to April 2023



Source: Bank of Ghana Statistical Bulletin, April 2023

The high cost of credit and limited access to credit from traditional banks partly explain the high failure rate of SMEs in Africa (Biekpe, 2004). Besides, restricted access to funding by African SMEs to formal financial institutions can also be attributed to the shallow financial system with limited reach (Beck and Cull, 2014). Most banks and financial institutions frequently classify SMEs as high-risk customers, thereby limiting their access to loans and other financial services. Nevertheless, opportunities exist for SMEs to flourish if we provide innovative sources of cheaper finance to unlock their potential.

Unlocking the Potential of SMEs in Ghana

In order harness the potential of SMEs in Ghana, it is critical to solve the problems they encounter; and build enabling ecosystem. In this publication, we focus on components that would unlock SMEs' potential to stimulate growth and employment. Finance is critical in unleashing the potential of SMEs in Ghana; by providing the funds and resources required for their growth and development. Access to low-cost financing alternatives such as loans, lines of credit; and venture capital allows SMEs to invest in growing their operations, updating technology; and entering new markets. Adequate financial assistance enables SMEs to capitalise on growth possibilities; develop; embrace new technology; and manage their working capital properly.

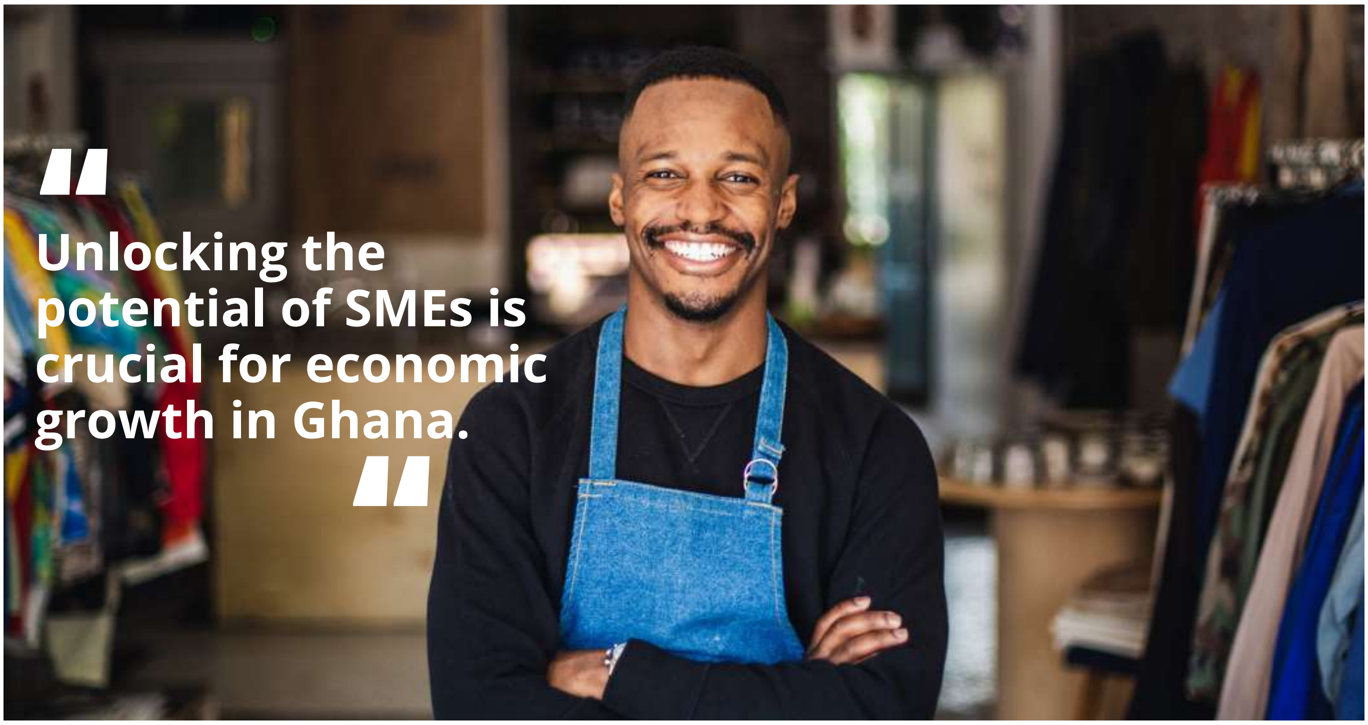
It must be acknowledged that some steps have already been undertaken; and efforts made in Ghana to address the demands of SMEs in terms of funding. The government has adopted a number of measures to improve SMEs' access to credit in partnership with financial institutions and development partners. These include the creation of specialised funds and financial organisations, such as the National Board for Small Scale Industries (now Ghana Enterprises Agency); and the then National Investment Bank (NIB), that provide targeted funding and assistance to SMEs.

Creating specialised financial products and services targeted to the needs of SMEs can be accomplished through the formation of separate SME-focused banks; or the development of loan guarantee schemes that decrease lender risk (Aryeetey et al., 2017). Unfortunately, these institutions have not adequately addressed the needs of the SME sector.

Further, measures such as financial management capacity-building programmes; and promotion of alternative financing choices such as venture capital and crowdfunding can improve SMEs' access to credit. With unrestricted funds flowing internally and internationally to subsidiaries from parent companies under the guise of financial globalisation, planned financial support from development banks and other development financial institutions could also be adopted to provide seed capital for start-ups; or SMEs struggling to survive in the competitive business environment.

In Ghana, the Ghana Economic Transformation Project (GETP) provided US$5 million, the equivalent of GH¢28,733,200 to 373 small- and medium-sized firms (SMEs); from 15 areas to help them recover from the COVID-19 crisis (World Bank, 2022). Four months after receiving the funds, 93 of the 165 enterprises polled were reported to have engaged 369 new employees (World Bank, 2022).

This strategy resulted in a beneficial outcome, with grants handed to SMEs leading to job creation; and recovery from the COVID-19 crisis. Thus, it is evident that by continuing to prioritise access to finance; and implementing supportive policies, Ghana can further enhance the competitiveness, productivity; and sustainable development of its SME sector, thereby contributing to the promotion of its core mandate, i.e., job creation; economic growth; and overall prosperity in the country.



Unlocking the potential of SMEs can also be achieved by lowering the cost of credit through stable macroeconomic regime. Currently, government is crowding out the private sector with an interest rate of 31.0%, which tends to drive lending rates up; and stifles SMEs' ability.

Conclusion

Unlocking the potential of small- and medium-sized enterprises (SMEs) is crucial for economic growth in Ghana. SMEs contribute significantly to job creation; income generation; and overall GDP growth. However, they face myriad of challenges, including limited access to finance, inadequate infrastructure, high operating costs, shortage of skilled labour, restricted market access; and regulatory burdens.

This publication focused on how to leverage finance to unlock the potential of SMEs in Ghana. Access to finance is a key driver of SME growth and therefore, conscious efforts should be made to provide affordable financing options tailored to the needs of SMEs. This can be achieved through the establishment of specialised funds, creation of development banks and other development finance institutions; while promoting alternative financing options such as venture capital and crowdfunding.

Collaboration among the government, financial institutions, development partners; and other stakeholders is necessary to implement these measures effectively. Given the right support and conducive business environment, SMEs in Ghana can thrive; and make even greater contributions to the country's economic growth and development. ◻

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Personal Finance 101: Strategic Tool for Personal Debt Management and Retirement Planning - A Personal View

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Introduction

> **The question is not at what age you want to retire but at what income**
>
> *George Foreman, former heavyweight boxing champion of the world*

The above statement is very instructive. Many young people dream about the age at which they want to retire; and what they would love to own. However, they do not consider the implications and requirements for doing so. When I was much younger, I used to say the same; indeed, I still say I would retire at age 55. It used to be age 50 when I was 30 years of age, but did not even think of what it required. The road to retirement was supposed to be smooth; and when I get to my desired retirement age, then pronto, it is my choice; and I retire. Indeed, at that age, I wondered why so many elderly persons were still working; and could not retire.

In this article, I share real-life experiences and practical things that we should all try to adopt if we want to retire comfortably. I hope every reader can learn something useful from it; be it for yourself, a friend or family member. And, if you are below age 30 and gainfully employed; while reading this article, count yourself lucky! Why? Because though the biggest enemy of retirement planning is time, it can also be your best ally.

Everyone has a picture of how he or she wants to retire; and what comfort means. For some, it means just living in a thatch roof hut in some undeveloped village; and sitting under a coconut tree daily watching the sea waves. For others, it means travelling around the world in the best airplane seats; and lodging in the best hotels. Whatever your retirement plan is and whatever your comfort is, what you must know is your retirement number. You must know the amount of money you would need to be putting aside while you are fit and working; to enable you to live the kind of life you would want to live in retirement; and the number of years as well.

These days, we are living longer and longer, due to improvements in science and medicine. One can start working at age 30; work for 30 years and find him- or herself living in retirement for another 30 years; taking you to age 90 before the good Lord calls you to eternal rest. The two things you are certain to have in life are death and retirement. Well, some people say taxes, too, but let's stick to the two for now. Let me share a few dos and don'ts in retirement planning.

The Dos And Don'ts Of Retirement Planning

- **Have a retirement target and write it down.** If the lifestyle you envisage would require a million Ghana Cedis, write it down; and ask yourself how much you would need to put aside regularly to hit that number when you attain age 60; or whatever age it is you intend to retire.

- **Get started.** Please do not wait until later. Later never works. Procrastination, when it comes to retirement planning, is a big enemy. As a young person, you would always think retirement is far away. I remember vividly my first day at work when I was, but a young man at age 28. That is almost a quarter of a century ago. Who would have thought, suppose I had started preparing for my retirement back then? In that case, I believed my desire to retire at age 50 would have materialised, but alas. Here I am, still working towards retirement. The lesson here is to start now. Do not postpone it. It is never too early. The older you get, the more difficult it is; and the riskier investments you would be attracted to.

- **Consider insurance.** Those working for themselves. Entrepreneurs who think they can work all their lives should also be very wary; and prepare for a day they may not be strong enough to get up to work. There are too many examples of entrepreneurs who did not plan for the day they would not be able to work, only for their businesses to collapse; and their lives become sorry.Insurance is a good option to consider though a lot of people are misinformed about the benefits of paying for insurance, especially that of disability. It is crucial for selfemployed persons who may not have the safety of social security.

- **Keep your retirement funds separate.** In preparing for retirement, do not put all your funds into one account. It is best practice to split whatever income you earn, no matter how small, so you do not mistakenly dip into your retirement funds to satisfy another financial need. Remember, no matter how much you earn, it is never enough. Please, do not think if you earn only thousand Ghana Cedis, you can't plan for retirement; because, trust me, if you can't plan with thousand Ghana Cedis, you would similarly, find it very difficult to plan with ten times that. The rule of thumb is always to split whatever you earn into three: a) Day-to-day expenses; b) Emergencies; and c) Retirement. I recommend a split of 70-20-10. Your emergency account should be an amount that is such that if you should lose your regular job, you can live on it for at least three months. And when you hit that number, it is recommended that you put the rest into your retirement account; or project account for a house; school fees or another long-term project.

- **Take control of your own retirement.** Many years ago, our parents gave birth to a lot more children than now. One reason was to guarantee that at least one or two

- of the children would grow to take care of the parent or parents during retirement. Children were seen as retirement asset and cash flow. However, that is not the case anymore. These days, our children are also trying to make ends meet; and are often unable to take good care of their parents. When I was born, there were no creches around. Creche was an alien concept; you would likely get a relative of your parents or grandparent coming over to look after you. Times are changing rapidly; and new creches are popping up everywhere. In the same vein, old people's homes are beginning to spring up; and children are dropping their parents in these homes because they neither have the time nor money to take good and effective care of them. The days when children were seen as retirement assets are fast eroding. Therefore, you need to take control of your own retirement; and not plan to rely on your children. If they come through, take it as a bonus, but prepare yourself.

The Ghana Formal Pension System

Let me use this opportunity to educate readers on Ghana's pension system, as I know it. I would try to be as practical as possible.

There is a very erroneous impression that the formal pension system in Ghana is not good; and that, the Social Security and National Insurance Trust (SSNIT) system is not good; it cheats Ghanaian workers. I beg to differ. The object of the scheme is to (a) provide pension benefits to ensure retirement income security for workers. The point being emphasised here is, the scheme was not established to restore the worker to his or her standard of living while in active service. This is the perception of many contributors and non-contributors; and thus, chastise SSNIT all the time. SSNIT works within the law; and operates as the law prescribes. It is then up to us to ensure we do what is required to retire comfortably. Further, it is imperative to understand there is social aspect to the functions of the scheme, which ensures the provision of social amenities for the various communities. The foregoing explains why SSNIT invests in public projects such as housing; school facilities; and other social amenities.

The new Pensions Act 766 that replaced the PNDC Law 247 is a three-tier pension scheme with the first tier or Tier 1 managed by SSNIT; while Tiers 2 and 3 are managed privately under the regulation of the National Pensions Regulatory Authority (NPRA). Tiers 1 and 2 are compulsory by law; and employers must pay for their employees. Tier 3 is optional, but has tax benefits; and is therefore, strongly advised.

It is essential to note that SSNIT calculates Tier 1 pensions on basic salaries; pensions are not calculated on any allowances one may be earning while in active service. This phenomenon sometimes shocks workers when they are ready to retire; and are told how much they would earn as pension income. This is because, while in active service, you are likely getting allowances for medical, transport, telephone, clothing and the like, so you are naturally not thinking about those expenses while in active service. However, upon retirement, those expenses do not go away; in fact, it is likely that the medical bills would increase; there may be no medical allowance; and you would have to rely on your pension to meet those expenses. If you have the "misfortune" of still taking care of your children; or even your parents, the situation becomes even worse.

To determine how much you would earn under the Act, Multiply your best 36 months (3 years) average salary by your "pension right." The Pension Right is 2.5% for each year of contribution for the first 15 years; and 1.125% for every additional year, up to a maximum of 60.0%.

EARNED PENSION RIGHT UNDER THE NATIONAL PENSION ACT, 2008 (ACT 766)

The Pension Right is 2.5% for each year of contribution for the first 15 years; and 1.125% for every additional year, up to a maximum of 60.0%.

Years of Contribution	15	16	17	18	19	20	21	22	23	24	25
Pension Right (%)	37.50	38.63	39.75	40.88	42.00	43.13	44.25	45.38	46.50	47.63	48.75
Years of Contribution	26	27	28	29	30	31	32	33	34	35	36+
Pension Right (%)	49.88	51.00	52.13	53.25	54.38	55.50	56.63	57.75	58.88	60.00	60.00

The above table suggests, no matter how long you contribute, you would not be able to earn more than 60% of your basic salary under Tier 1. Sit back and pause for a moment. Overnight, your income gets slashed by 40% at the minimum; the percentage increases if you have not been able to contribute for the maximum number of years. If you have armed yourself with this information right from the beginning of your career; and you prepare adequately, it should not be such a shock to your system. In most cases, it is those who do not take time to understand the law; and prepare for what is inevitably coming their way who complain about SSNIT cheating them. SSNIT is not cheating; it is simply applying the law.

Consider an individual who is retiring at age 60; and has contributed for 240 months, with the following three best annual salaries: GH¢60,000, GH¢58,000, and GH¢44,000; giving an average of GH¢54,000, meaning monthly pension income of GH¢4,500.

Pension right (Act 766):

0.375 + 240

[Total number of months contributed - 180] x

0.0009375 = 0.375 + (240-180) x 0.0009375 = 43.13%.

Applying the above pension right would mean the individual would earn

GH¢1,940.85

at retirement.

Then, there is Tier 2, which is a defined lump sum payment where both the employee and the employer are legally bound to contribute to an NPRA-registered scheme; where a fund manager is appointed to manage the funds privately. It is essential that, as an employee, you follow through with your Tier 2 contributions to ensure the cash has moved to the trustee. The fact that a deduction reflects on your pay slip does not necessarily mean the money has moved. Insist on monthly statements from the trustees to ensure no missing months. Indeed, even with SSNIT, you must check annually to ensure all contributions are intact. Technology makes it easy to check statements to ensure deductions have gone through.

Further, there is Tier 3, which is voluntary, but has tax benefits. Even though most employers may not be willing to participate due to the cost, employees are strongly advised to ask their employers to invest in a Tier 3 scheme on their behalf, rather than ask for clothing, fuel; or any such allowance. For those already benefiting from a Tier 3 scheme, please, do not go in for the money after 10 years. It has been noticed over the years that most employees express the desire to claim the contributions they have accumulated, citing local currency (Ghana Cedi) depreciation; and that, they can use the money for 'something' or other purposes. From experience, that 'something' often ends up in uncompleted cement.

Retirement and old age are about cash flow, not property. You have not done much if you have a property that cannot generate cash flow. It is a fine balance to consider when preparing for retirement. You must invest in assets that would generate cash flow for your retirement.

What is the reality in Ghana today? An Actuarial review in 2005 revealed for every 100 Ghanaians, only 2 retire comfortably; 23 continue working; and 75 depend on charity and relatives, even when they are on traditional SSNIT pension.

FEW FACTS GLEANED FROM SSNIT SOURCES

The minimum insurable earning for 2023 increased from GH¢ 365.33 to GH¢ 401.76, following the National Daily Minimum Wage raise. Accordingly, as of December 31, 2022, the highest-earning pensioner would receive GH¢169,725.89 per month in 2023. Available data show that, currently, over 80 percent of workers in Ghana have insured salaries of GH¢2,500 or less, which means 80 percent are contributing GH¢275 each month, according to the Trust.

Also, 95.5 percent of pensioners are paid GH¢2,500 or less each month; only 5.3 percent of workers in Ghana pay premium on salaries of GH¢5,000 or more; while 1.4 percent of pensioners receive GH¢5,000 and above as monthly pension income. According to the Trust, should this remain unchanged, 80 percent of retirees would receive pension income of GH¢1,500 or less in future.

The Pension Scheme, as administered by SSNIT, has an active membership of over 1,622,748 as of December 2019; with over 208,753 pensioners regularly receiving their monthly pensions from SSNIT. Statistics released by SSNIT

indicated about 434,655 workers who form a cumulative 25.35% of its contributors are paid monthly basic salary of GH¢500 or less.

This implies such contributors, whose highest contributions are GH¢55 monthly, are likely to earn minimum pension income on retirement.

From the above, we can all tell that only few people earn decent living wage from their Tier 1 pension contributions. You need a "Plan B!"

You need to invest in an instrument or asset that would provide you liquidity at retirement. Let us analyse the table below:

INVESTMENT GOAL: GH¢1M BY AGE 60			
Age	Retirement Number (GH¢)	Contributions (GH¢)	Interest (GH¢)
25	89	37,225	962,774
30	180	64,672	935,328
35	367	110,106	889,894
40	762	182,968	817,032
45	1,641	295,456	704,544
50	3,847	461,587	538,412-day

Returns are not guaranteed. The example assumes an annual average return of 15%. The amount is not adjusted for inflation.

You would realise with the power of compounding, the earlier you start investing, the better. Know your retirement number; and start working towards it. Further, you would notice for every five years you wait, your retirement number literally doubles, meaning you would need to set aside more money regularly.

You might be asking yourself what type of instrument you should be looking to invest in. If I were writing this article a year or two ago, I would point you to the Government of Ghana securities, which, when we were in school, were touted without question as being the best; and risk-free instrument to invest in. However, events of the past year have shown that this is not quite the case anymore. While good, government securities are also not fool proof; no investment is risk-free. It is imperative to know the characteristics of the asset you are investing in; who is managing the asset; and the regulatory body under which the asset manager operates. Despite all the issues on government securities, the evidence suggests short-term securities (e.g., 91-day) are still heavily patronised. It is still an asset class worth considering.

Indeed, even with all the restructuring that is happening within the Ghanaian economy, the security issuer, the government, is still making efforts to ensure investors get their money; albeit not as expected. This goes further to buttress the point that the earlier you start, the better it is for you; as you become strategically positioned to ride out all the potential pitfalls that happen along the way.

OTHER IMPORTANT ISSUES TO NOTE

Housing

We often have plans to build our dream retirement home; and have all sorts of fantasies that we try to put into the house. When we are young and fit with money flowing from our regular work, it is all well and good. However, we should remember when we retire, we still need to maintain the house and pay the bills. An uncle of mine had seven kids. In his prime, they lived in a 10-bedroom house at Ridge. Trust me, all the kids married and left. In such a situation, you would soon realise you and your spouse are alone in this big mansion, likely to be a storey building; with limited number of people occupying it; and most likely with very little money for regular or routine maintenance.

It may not sound pleasant to write this, but it is the reality in old age; you could end up in a wheelchair; or mobility could be severely impaired. You are not young again to be running up and down the stairs unless you have enough resources to install a lift in the house. My Grandfather, who had owned more than 50 storey buildings, advised me at a very tender age never to own a storey building.

I have heeded that advice, and I think it is a good one. If you can, avoid the storey building. If you are going to have one, make sure you have some rooms downstairs where in the event you are old; and not able to climb, you can occupy downstairs. He, my granddad, got stuck upstairs in his home for many years. When he finally came down, he never returned to his home. While on housing, as indicated above, you may invest in houses to rent as your cash flow for the future. It is an excellent investment, but remember as a landlord, you have obligations where you would need to maintain certain aspects of the house. You have to ensure your cash flow analysis is such that you do not spend all the rental income you may earn; and have nothing left to maintain the house.

Soon, you would not be able to attract the kind of clientele you are looking for; and may have to end up selling the house for a pittance. These are instances of personal life experiences. If you are investing in housing as retirement source of income, plan, with maintenance and affordability in mind. In Ghana today, the middle- to higher middle-income bracket seems to be the fastest moving real estate piece, but the real estate industry changes very rapidly, so always seek advice from professionals.

Debt

One of the greatest enemies of comfortable retirement is debt. Whatever you do, try as much as possible not carry debt into your retirement. If you can avoid debt even in your prime, avoid it; if you must be in debt, be in what can be described as good debt. It is worth-emphasising, not all debt is bad. However, being financially independent implies being able to do what you desire to do at the time you intend to, without remaining in debt.

> **Quite often, people end up in debt because of something they want, rather than something they need.**

While growing up, I observed quite a number of people going into debt, right from school; and they have lived in debt their entire lives, going into retirement with debt; and either living as paupers or leaving a lot of strain on their families, having died prematurely.
Quite often, people end up in debt because of something they want, rather than something they need. Peer pressure influences some people to borrow for things they want. Of course, mortgage would always be recommended. Borrowing to purchase a house is good; a growing asset is backing the borrowing. If things go wrong, you can always sell the house; repay your debt; and set yourself to start again. Borrowing to buy a car is also pretty good, provided you match the asset and the liability. I have seen people borrow to buy cars they can't even maintain. Before long, the vehicle is not saleable, but the loan remains. As much as possible, avoid debt because if you do not match the asset for which you borrowed with the liability correctly, you would find yourself borrowing to pay off the previous debt.

Soon enough, you would be in a vicious cycle of borrowing to pay off existing debt till you retire; and this is not just a story, it is real. In my retirement seminars, I have encountered testimonies of people nearing retirement without as much as anything to their names. For them, retirement is a terrifying prospect, but it needs not be that. If properly planned, one can gracefully embrace retirement.

Conclusion

Financial planners often recommend replacing about 80% of your pre-retirement income to sustain the same lifestyle after you retire. This means if you earn GH¢100,000 per year, you would aim for at least GH¢80,000 of income (in today's terms) in retirement.

You can't afford to leave it to chance. Your retirement requires diligent planning, commitment and careful execution. It's never too late, so the time to start is now. I hope I have communicated to someone.

Partnership for Success - FINTECHS and the Financial Sector

Kwame A. Oppong
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Bank of Ghana

Improving access to financial services has been a central policy focus of the Bank of Ghana (BoG) since its establishment. Efforts made at achieving inclusive access to financial services led to the establishment of diverse financial institutions, including savings and loans companies, finance houses, microfinance institutions as well as rural and community banks.

The late 2000s marked a notable variation in the focus of the Bank's financial Inclusion strategy towards Digital Financial Service (DFS), on account of significant penetration of mobile telephony across the length and breadth of the country.

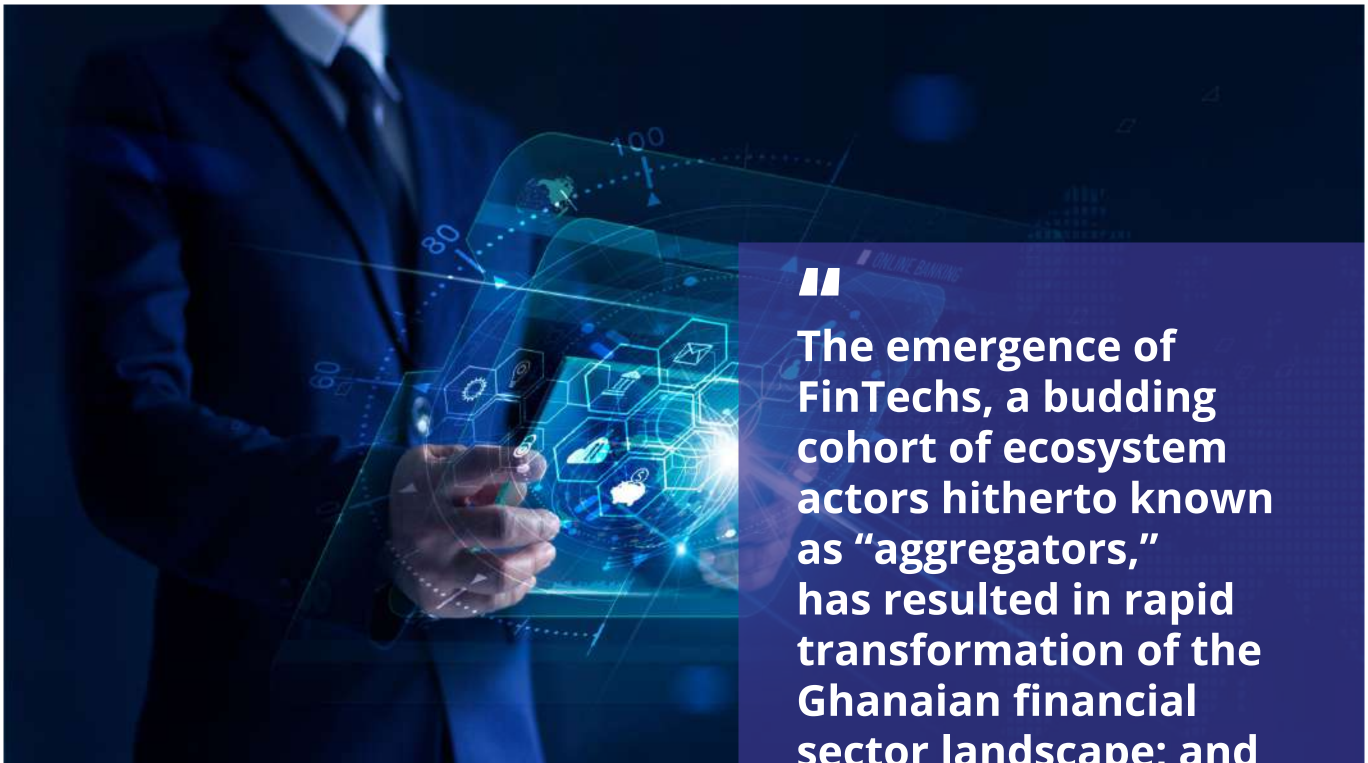
With the passage of the Branchless Banking Guidelines in 2008, the Bank created an enabling environment for the branchless delivery of financial services by banks in partnership with mobile telephony service providers, thus giving birth to mobile financial services in Ghana.

Since then, Bank of Ghana has evolved its regulatory environment to reflect the dynamism in the DFS space with the passage of the Payment Systems and Services Act, 2019 (Act 987) which is anchored on proportionate regulation and risk-based supervision, thereby creating a conducive environment for inclusive participation of FinTechs of varying sizes and business models.

The emergence of FinTechs, a budding cohort of ecosystem actors hitherto known as "aggregators," has resulted in rapid transformation of the Ghanaian financial sector landscape; and blurring of boundaries of both financial firms and the financial sector. This development has further enhanced the dynamism in financial service delivery in Ghana.

As businesses, banks leverage the expertise of FinTechs to provide them with high-value operational benefits such as lower transaction costs. Moreover, FinTechs are redefining customer experience by developing innovative solutions such as the use of chatbots to provide round the clock customer support; mobile applications to give customers real-time access to their accounts; and machine learning to enhance their user experience.

Following the COVID-19 pandemic, banks and merchants who hitherto were not motivated to explore technology, are now adding more technological solutions; and digital products and services to their portfolio



> **"The emergence of FinTechs, a budding cohort of ecosystem actors hitherto known as "aggregators," has resulted in rapid transformation of the Ghanaian financial sector landscape; and blurring of boundaries of both financial firms and the financial sector."**

of offerings to meet the ever-growing needs of their customers, with the help of FinTechs. To this end, FinTechs are complementing banks and other financial institutions in their quest to digitally transform their operations; and by extension, the Ghanaian financial landscape, thereby, promoting efficiency; and lower operational cost.

The Bank of Ghana's regulatory dynamism; and quest to promote digitalisation of the financial ecosystem led to the establishment of the FinTech and Innovation Office in 2020; as part of its broader measures to operationalise Act 987. Since then, targeted policies have been carefully crafted to ensure safe, sound and resilient digital financial ecosystem; while promoting innovation. The partnership between banks and FinTechs as allowed for under Act 987 has led to innovative digital payments, savings, credit, insurance and investment products delivered in partnership with banks. These have become convenient and affordable alternatives to in-branch services to the customers of banks.

The novel establishment of the Payment and Financial Technology Service Provider (PFTSP) license category cannot be over emphasised. The use of advanced technologies such as blockchain, cloud computing, big data analysis, internet of things (IoT) and artificial intelligence (AI), among others, to provide credit scoring predictive analytics service to assist banks in credit decision making from wide range of traditional and non-traditional sources, potentially presents an opportunity to reduce non-performing loans (NPLs); and increase revenue.

Bank of Ghana in similar fashion, introduced crowdfunding policy as a way of reforming; and building on the Ghanaian traditional funds mobilisation system, popularly called "susu," "nnoboa" or "ntoboa." The policy has provided a regulatory anchor for payment service providers to use technology, in partnership with banks, to provide individuals, groups and associations with safe means of raising funds in support of social and economic projects.

The growing use of Bank of Ghana approved crowdfunding products in recent times by churches, associations and corporate bodies for economic, social, health and environmental purposes is testaments to the timeliness of this policy intervention; and its useful role in the Ghanaian society.

To further drive digitalisation and collaboration between banks and FinTechs in the financial ecosystem, an area expected to be mutually beneficial is the concept of open banking. This is where financial institutions and payment service providers allow each other to access consumer data via Application Programming Interfaces (APIs) within safe and ethical framework. In essence, this concept re-emphasises the unalienable right of consumers to their data; and the ability to permit its use to access financial service. This concept can therefore entrench the alignment of interest between banks and Fintechs, particularly as it accounts for the commercial value expectations of the data holders.

The increasing expectations of consumers and rapid digitisation of banking, calls for collaborative solutions to drive innovation; and bring deeper value to customers. The Bank of Ghana will continue to advance the adoption of safe innovation; and implement policies that inject dynamism into the financial services industry with its regulatory and innovation sandbox, which provides conducive atmosphere for nurturing FinTech start-ups as well as testing of prospective innovative products and technologies such as blockchain for broader societal impact.

Bank of Ghana has provided conducive regulatory environment for banks to satisfy the increasing appetite of digital financial services consumers. However, the growing complexity of emerging business models in the real sector, arising from innovative tools such as blockchain, AI, machine learning, among others, calls for more collaboration among banks and technology solution providers. Consumers now value personalised and differentiated services, speed and convenience. In this regard, continuous innovation and forging strategic alliance with tech-focused companies are essential to remain relevant in an ever-dynamic marketplace. It is therefore in the mutual interest of banks and FinTechs to forge symbiotic business relationships to deliver true; and lasting value to consumers of financial services.

Future of Money: Role of Emerging Technologies and New Business Models

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Some 55 years ago, innovation trends in the banking industry; and use of money fuelled general speculations about the future of money. In a comment on the raging speculations at the time, Jack Lefler, in the July 24, 1968 edition of the Las Cruces Sun-News (Las Cruces, NM) noted: "As a result of the proliferation of credit cards, there has been widespread speculation about the possibilities of a checkless, cashless society in the future." However, for more than 5 decades, cash is still king, despite an apparent trend toward cashless society[1].

It is also evidently true that in the last three (3) years, we have witnessed more tremendous changes to our ways of work and life, than we experienced some decades ago. This is largely due to the advances in emerging technologies; global responses to universal challenges such as the COVID-19 pandemic; and the surge in entrepreneurial pursuits, resulting in new Start-ups leveraging the opportunities of advanced technologies; to address existing and new consumer pain points. The result has been digitalisation of almost all activities, including using money. And rightly as noted by Dan Schulman, CEO of PayPal, "Physical money, whether it's checks or cash or credit card, is digitizing in front of us."

The trend of emerging technologies, their uses; and large-scale adoptions through new business models are influencing the current wave of changes; and cannot be discounted in any prediction of the future of money. This is as a result of money (cash) demonstrating the tenacity to remain king, in spite of the long history of innovations that have underpinned developments in the global financial sector for decades.

It is instructive to note the global financial sector; and Ghana's financial sector in particular, is undergoing various structural and operational changes, influenced by several factors which this article cannot comprehensively discuss. Therefore, this article only aimed to assess how some of the emerging technologies; and new business models with significant impact on the global financial sector may influence the future of money.

MONEY TODAY – THE CONTINUING EVOLUTION

According to Koenig & Bauer[2], "Cash works but it could work better. No other payment tool enjoys such a unique range of defining attributes, ease of access and use, simplicity, or resilience.

1. Laboure, Nejati and Ainsworth-Grace, 'The Future of Payments: Series 4 Part 3: Bye-bye cash, hello digital payments' (Deutsche Bank Research, April 2023) https://www.dbresearch.com/PROD/RPS_ENPROD/PROD0000000000527773/The_Future_of_Payments%3A_Series_4_Part_III__Byeb.PDF?undefined&realload=cQB9fU4WiTFnxHXBao3gMxDachU/Bh6LDrQxlrZ~acpNu7UWnUNXWFkDXeqEYoLP (accessed May 4, 2023).
2. 'New strategy on Cash Innovation & Sustainability' (Koenig & Bauer Banknote Solutions, 23 January 2023) https://banknote-solutions.koenig-bauer.com/en/news/articles/article/new-strategy-on-cash-innovation-sustainability/ accessed May 4, 2023.

As humans, we can, and we do depend on cash. Today cash and in particular, banknotes, represent the bedrock of economic stability, trade, social inclusion, and freedom to exchange value." This is an apt representation of money (cash); and it is most appropriate for this context.

Money in its current form – banknotes and coins - have undergone various forms of transformations over centuries. In tracing its early development, Citi GPS[3] noted, "... around 3500 BC, money moved from clay tokens to clay tablets. Precious metal-based money followed, with coins circulating in Asia Minor around 550 BC. Paper money was invented by the Chinese, initially starting as promissory notes during the Tang Dynasty (618-907 AD)."

Up until the 1970s when the United States abandoned the "gold standard" practice, replacing same with the United States Dollar ($), gold or similar precious commodities were the basis of the value of money through to the 20th Century.

The characteristics – universality of acceptance, finality of transactions; and anonymity and uses - of the early developed forms of money remain uniquely tied to modern forms of money. Today, money continues to essentially serve three (3) historical functions, namely as a:

1) **Unit of account,** assisting in measuring the value of a particular good or service;

2) **Medium of exchange,** acceptable standard for paying for goods and services; and

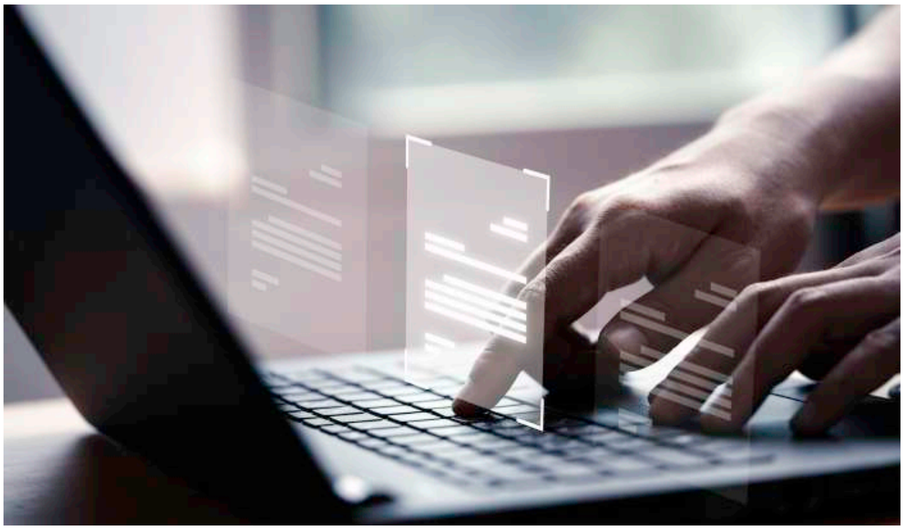
3) **Store of value,** which can be saved, retrieved and exchanged at a later time[4].

Banknotes have been around for centuries; and the way they are used, moved and accessed has evolved in line with public needs; and technological advances. Today, money (banknotes) continues to enjoy universal acceptability due to its ability to provide comprehensively for what consumers value in a payment instrument – trusted as legal tender; has near 100% availability and reliability; consider free of charge to use; retains anonymity; offers direct settlement; offers safe haven and fall-back; tangible and helps with budgeting; and offers inclusion in national payment tool for marginalised sectors of society[5].

Banks - first established in 1474 in the Tuscan city of Siena have developed as part of the institutional arrangement to regulate the use of money. In Ghana, the earliest banking activities started in 1896, when the Bank of British West Africa (which later became Standard Chartered Bank in 1985) opened its first branch in Accra. Today, the modern history of banking operations in Ghana has been facilitated by several financial sector reforms, policy initiatives, guidelines; and enactments, key among them being the 1992 Constitution of Ghana; and the Bank of Ghana Act, 2002 (Act 612), as amended; and its allied legislations.

With constitutional authority[6], Ghana's central bank, Bank of Ghana, exercises the sole responsibility for issuance of the national currency, the Ghana Cedi (₵); a central bank-backed currency also referred to as "fiat money." As it relates to its mandate, the Bank of Ghana also regulates, licenses; and supervises commercial and retail banking activities, facilitating the use of money in Ghana. This regulatory and operational structure,

3. Ghose and others, 'Future of Money: Crypto, CBDCs and 21st Century Cash' (Citi GPS, 16 April 2021).
4. Laboure, Nejati and Ainsworth-Grace (n 1).
5. Koenig & Bauer (n 2).
6. 1992 Constitution of Ghana, Article 183



consistent with global practice, has enabled the development; and use of money in Ghana.

Over the years, an overarching goal of regulations[7], policies and initiatives[8] that have underpinned the development of the financial sector; and the use of money in Ghana have been the promotion of "financial inclusion for all." This goal reflects the vision of the current National Financial Inclusion and Development Strategy (NFIDS) (2018 – 2023), which is "increasing the availability of a broad range of affordable and quality financial services that meet the needs of all Ghanaians; and are provided by sound, responsible and innovative financial institutions."

Although the NFIDS is still under implementation till the end of the year (2023), survey by the Ministry of Finance – the Official Ghana Demand Side Survey 2021 - to measure the impact of the various policy interventions and programmes revealed tremendous progress in bridging the financial services gap for Ghanaians. According to the survey, financial access increased from 41% in 2010 to 95% in 2021 for formally served (collectively served by banks and other formal financial institutions); surpassing the target of 85% by 2023. Equally, financial access for other formal (non-bank) financial institutions increased from 20% in 2010 to 94% in 2021, driven largely by Mobile Money (MoMo) which had an 87% contribution. Consequently, the excluded population from financial services reduced from 44% to 4% within the same period, bridging the unbanked population gap; and pushing Ghana to the 2nd position as Africa's "least financially excluded country."

With the high recorded financial inclusion rates, access to key financial services in terms of savings and investments; borrowing and credits; insurance and risk; and remittances have been enabled for a growing percentage of Ghanaians who hitherto had no access. Innovations within the financial sector, notably Mobile Money, are accounting for these new opportunities and possibilities of financial-sector-participation by all.

Mobile Money agents have become the closest financial service providers within 30 minutes of reach for 92% and 76% of urban and rural adults respectively; with bank branches, ATMs; and Microfinance Institutions (MFIs) remaining the least accessible[9]. Mobile Money agents have grown to become an important part of every mobile network service, by continuously driving industry expansion; and being responsible for two-thirds of all cash-in transactions in the 2022, according to GSM[10].

Mobile Money has become mainstream financial service in Ghana, reflecting the dominance of payment solutions in our Fintech ecosystem. Despite the enactment and implementation of the Electronic Transfer Levy Act 2022 (Act 1075) as amended, introducing 1% tax on any electronic transfer including Mobile Money above the daily threshold amount of GHS100.00, Payment System Data published by the Bank of Ghana still showed significant increase in MoMo transactions from total transaction volume of 365 million with total value of GH¢76.8 billion in February 2022; to 497 million and GH¢134 billion respectively in February 2023[11].

Globally, digital transaction value grew by 22% between 2021 and

7. Example is the Payment Systems Act, 2019 (Act 987) which was enacted to support the regulation of new financial technology (fintech) service provision in Ghana.
8. Examples include the Branchless Banking Guideline (2008); Guidelines for E-Money Issuers (EMI) (2015)
9. Ministry of Finance, The Official Ghana Demand Side Survey 2021
10. The State of the Industry Report on Mobile Money 2023
11. Bank of Ghana, Summary of Economic and Financial Data for 2023 n (10).

2022 from $1 trillion to around $1.26 trillion; while the share of cash-based transactions in the overall transaction mix declined, with cash-in and cash-out transactions dropping nearly 2%; due to the significant rise in digital transactions, particularly interoperable bank transfers and bill payments (GSM)[12].

Digital payments, as category of digital transactions, according to Capgemini Invent , would grow from approximately $87 billion currently to more than $200 billion by the year 2028; with Peer-to-Peer lending also growing from an approximate $80 billion to more than $700 billion by the year 2030.

Rightly noted by the Central Bank of Nigeria (CBN) , the growth in the payment market would be driven by emerging trends such as Request for Payment (RfP); virtual cards; contactless card payments; near field communication (NFC) on mobile devices, wearables and internet of things (IoT); USSD payments; quick response (QR) codes; voice-initiated payments through services such as Alexa, Siri and Google Assistant, among others.

"With the recent rise in digital forms and uses of money, the use of traditional banknotes and coins is set to decline."

The switch to electronic payments would further be accelerated by interoperability and the exchange of cash for digital counterparts; the mobile-first generation – preferring instant access to funds to long queues in traditional banks; continued adoption of mobile and digital wallets for end-users and merchant accounts; and emergence of frictionless payments which would remove the need for one-time passwords (OTPs) .

With the recent rise in digital forms and uses of money, the use of traditional banknotes and coins is set to decline. While the power of financial innovations – functionality and relevance - is important in driving change, changes in the use of money could primarily be attributed to regulatory responses and permissions. The enactment of enabling legislations, setting up of new functional supervisory office at the Central Bank for new financial technology innovations; and the implementation of government policy initiatives have created co-ordinated approach to harnessing the benefits of a shift from cash to digital payments; by developing national inclusive digital payments ecosystem where every individual can make; and receive payments digitally[18].

Nonetheless, the attitude and response of innovators; the government and regulator are not suggestive of the intention to replace money – in the form of banknotes and coins. At best, the structural shift from cash to digital is to drive a "cash-lite (light)" economy where consumers would use less physical cash; and transact predominantly, using licensed and permitted digital platforms. To this end, money in the form of banknotes and coins would remain relevant in the disruptive digital financial era; and co-exist with alternatives in the growing multi-payment ecosystem, as banknotes in circulation have grown over 400% since the introduction of the first ATM in 1967[19].

13. Zwiefler and Rockermeier, From Digital to Next-Generation Banking, December 2022) Brochure Potrait (capgemini.com) (last accessed 4th May 2023)

14. Central Bank of Nigeria, Nigeria Payment System

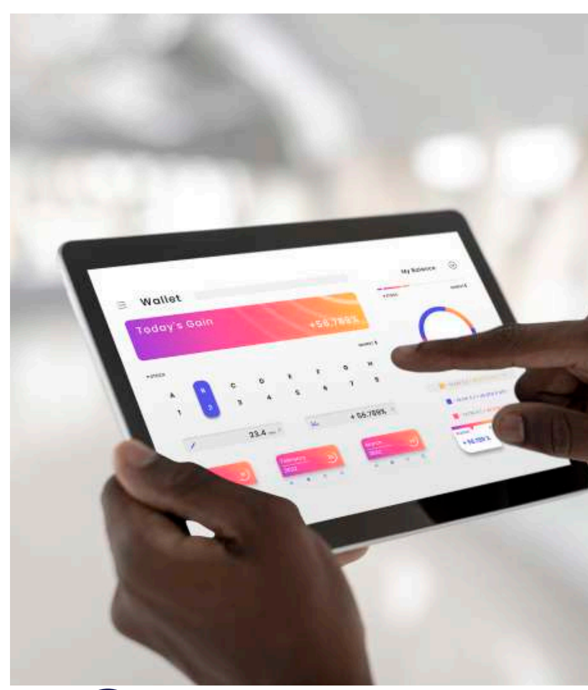
Vision 2025 ibid.

16. Fintech and Innovations Office at the Bank of Ghana

17. Such as "Toward a Cash-lite Ghana – Building an inclusive digital payments ecosystem", the National Payment Strategy, Digital Financial Services (DFS) policy among others.

18. Ministry of Finance, Toward a Cash-lite Ghana – Building an inclusive digital payments ecosystems: Digital Payments Roadmap

19. Koenig & Bauer (n 2).



THE FUTURE OF MONEY: PROPHESIES AT BEST

Fundamentally, the three historical functions of money – use as unit of account; medium of exchange; and store of value - would not change going forward. This is likely the only certainty one could predict about the future of money. The goal to displace cash as noted by the Central Bank of Nigeria[20] "through a cashless and efficient electronic payment system infrastructure that facilitates financial services in all the sectors of the economy and provides secured, reliable, and user-centric financial solutions in compliance with international standards" is taking centre-stage in regulatory efforts across the world towards the management of money now; and in future.

To maintain sovereign control over the issuance and use of money, central banks across the world are amplifying efforts to define, regulate; or outrightly ban and build stronger oversight over new forms of money being pursued by private players as ways of democratising the control of central banks over the issuance and use of money.

Competition for the future of money is bound for two ends – one end driven by the continued desire by central banks or governments or both to centralise, issue; and control the current form of money (fiat) and its emerging digital versions – Central Bank Digital Currencies (CBDCs); and the other being to permit the decentralised and independent private limited supply of money facilitated by emerging technologies such as blockchain - as the case of Cryptocurrencies.

This competition is further reflected in the state of the two regulatory worlds. First, the adoption of regulatory regime for the issuance and use of fiat money – with consistent improvements that enhance the security and durability of banknotes; as the stable and widespread use of fiat money have increased over the years. On the other hand, unregulated regime or outright bans or both dominate the growing interest in digital currencies.

The International Monetary Fund (IMF) described CBDCs as new forms of money with three particular characteristics[21]. That is, they are:

1) In digital or electronic form;
2) Issued by a country's central bank; and
3) Intended to serve as a legal tender.

These defining characteristics make central banks the only institutions with the authority to issue and regulate CBDCs. Central banks are participating fully in the disruptive digital evolution; and taking advantage of emerging technologies to pilot; and roll out various forms of CBDCs. According to Citi GPS, to be able to issue and control CBDC as digital form of fiat money, central banks must either elect to centralise CBDCs through single proprietary system; or through decentralised system, using distributed ledger technology (DLT).

Additionally, central banks must contend with the type of CBDC to issue; and regulate. As noted by Henri Arslanian[22],

...there are two types of central bank digital currencies — wholesale CBDCs and retail CBDCs. Wholesale CBDCs are issued by the central bank but operate between the central bank and member banks. The public does not touch wholesale CBDC. By contrast, retail CBDC is a digital currency accessed by the public, like a digital banknote. Retail CBDCs can have a significant impact on the financial services ecosystem. We can segregate wholesale CBDC into two — the first is national wholesale CBDC, which is the use of wholesale CBDC within a country. Although there are pilots, their impact is likely to be limited as many countries already have well operating national payment systems like Real Time Gross Settlement (RTGS) networks. Although they may not be perfect, they work fine. So, there is not much urgency there. The second category of wholesale CBDCs are cross-border CBDCs, which although more complicated, are interesting as the system today has a lot of flaws, with a clunky network of correspondent banks and legacy

20. n (14)
21. Bossu, Itatani, Margulis, Rossi, Weenink and Yoshinaga, Legal Aspects of Central Bank Digital Currency: Central Bank and Monetary Law Considerations, November 20, 2020) https://www.imf.org/en/publications/wp/issues/2020/11/20/ (accessed May 4, 2023)

22. External Expert View, Henri Arslanian on CBDC published in Citi GPS: Future of Money – Crypto, CBDCs and 21st Century Cash (2021)

systems. This is one area a lot of central banks have been trying to explore if they can improve with CBDCs. However, CBDCs are likely to have a bigger impact at the second type — retail CBDC.
Within retail CBDCs, we have three main categories. First is a two-tiered retail CBDC. In such a case, the central bank issues a retail CBDC, but it is issued via regulated intermediaries, e.g., banks.

As a result, it does not disintermediate banks. It is similar to how things operate today, with the exception that the public has access to a digital form of central bank money (same way banks distribute physical banknotes via an ATM). China, the Bahamas, and some pilots in Sweden are good examples of a two-tier retail CBDC. The second model is synthetic CBDCs, where the central bank allows tech firms and others access to a central bank account. These firms can issue stablecoins backed by central bank reserves. Unlike a bank and a fractional banking model, these stablecoins are backed 100% with reserves at the central bank. This idea was advanced by the IMF two years ago and is not too dissimilar to the debate that took place in the U.S. around narrow banking a couple of years back. The third form of retail CBDC is when the central bank works to create a tech platform allowing banks and non-bank FinTechs to participate. The Bank of England and even Sweden's Riksbank were leaning towards such a model.

Complexities surrounding the type of CBDC to adopt; and lack of uniformity account for the delays in widespread rollout by central banks across the world. A research briefing published by the House of Commons Library revealed as at the end of March 2023[23], only 4 CBDCs[24] were operational; and 114 other countries[25] were exploring the concept; with the Bank of England[26] saying it has no plans yet to introduce a digital pound; and would not be deciding on its introduction for several years to come.

Apart from investments into new technologies, systems, people; and processes to support the rollout of CBDCs, most central banks are struggling with how to align implementation with the existing developed financial sectors. As a guide, the Bank of England together with the Bank for International Settlements published a report on the "foundation principles" that must guide the implementation of CBCDs; citing three key principles:

1) CBDC should co-exist with cash; and other types of money in flexible and innovative payment system.
2) Any introduction should support wider policy objectives; and do no harm to monetary and financial stability.
3) Features should promote innovation and efficiency[28].

Despite the challenges of policy considerations underlying the rollout of CBDCs by central banks, CBDCs have immense advantages which according to CBN include reduction in the cost of cash management; prevention of counterfeiting due to its cryptographic design; allowing real-time auditing and tracking; facilitating better compliance with Anti-money laundering (AML) and Counter Financing of Terrorism (CFT) frameworks; improving payment efficiency; fostering competition and control, among others[27]. Additionally, CBDCs have the potential to act as interoperable payment instrument and tool for bank reserves; balance sheets; and liquidity management for central banks and commercial banks .

The ability of central banks to manage the related risks associated with the rollout of CBDCs would have significant impacts on their adoption; and use by private citizens. As noted by Citi GPS, CBDCs have inherent risks relating to the following:

1. Central banks competing with private players.
2. Loss of privacy due to the risk of excess surveillance; as transactions would not be anonymous, unlike traditional cash transactions.

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23. Browning and Evans, Central Bank Digital Currencies, The Digital Pound, 8 March 2023) <Central bank digital currencies: The digital pound - House of Commons Library (parliament.uk)> accessed May 4, 2023
24. One of such countries is Nigeria where eNaira has been rolled out.
25. The Bank of Ghana has concluded the piloting of eCedi and is reviewing the results for a possible commercial rollout.
26. Bank of England, "Central banks and BIS publish first central bank digital currency (CBDC) report laying out key requirements" (press release), 9 October 2020 (accessed on 30 April 2023)
27. n (14)
28. Citi GPS, Future of Money – Crypto, CBDCs, and 21st Century Cash, 2021) https://icg.citi.com/icghome/what-we-think/citigps/insights/future-of-money> accessed [May 4, 2023]
29. ibid.

The above considerations, however, would not discourage central banks from the ongoing CBDC framework evaluations for commercial rollouts. The world of money is being turned on its head with CBDCs of major currencies coming our way towards the second half of this decade. We could have $5 trillion of CBDCs circulating in major economies in the world; and could be used by 2 to 4 billion users globally, by 2040[30]; and Ghana[31] may not be an exception to the growing phenomenon.

A CBDC is central bank-issued digital money denominated in the national unit of account; and represents liability of the central bank[32]. This essential characteristic is the point of departure for CBDC from other forms of digital payment instruments currently being pursued by private entities.

The issuance, control and supervision of money have historically been the preserve of public institutions led by central banks. However, we are witnessing an ongoing challenge by private institutions to democratise; and break the public monopoly over the issuance and use of money through leveraging advanced technologies to create other digital formats of money. The result of this competition is the design of hitherto unknown; and unused forms of digital "currencies" set by supply and demand known as "cryptocurrencies" – currencies that have no legal par value; and public institutional liability backing.

Cryptocurrencies are private digital and decentralised attempts at innovating digital payment instruments. Leading these innovations are Big Tech and other private entities. Big Tech has been focused on securing regulatory approvals for Stablecoins which are designed as blockchain-based digital currencies collateralised to the value of an underlying asset (usually claim or reserve). In the process, four approaches have been developed in the design of stablecoins, namely fiat collateralisation; commodity collateralisation; crypto collateralisation; and non-collateralisation with fiat currencies such as the US dollar (USD), euro (EURO); or British pound (GBP) being the commonly collateralised stablecoins. Examples of stablecoins include Tether and USDC[33].

Other cryptocurrency formats have aggressively been pursued until November 2022, when the collapse of the world's second-largest cryptocurrency exchange platform, FTX, led to the historic joint warning by three US regulators – US Federal Reserve, Federal Deposit Insurance Corporation; and the Office of the Comptroller of the Currency about the associated cryptocurrency risks, including potential fraud; legal uncertainty; and misleading disclosures by digital asset firms.

Bitcoin (BTC) and Ethereum which lead this category are designed on a peer-to-peer architecture which allows digital values to be transferred without a central authority such as the central bank. The reliance on cryptography – the mathematical process of encoding and decoding information - helps in ensuring the security of transactions (over a decade of history of not being hacked); operating on anonymous basis; and without assigning control to any single participant. Developed as a decentralised crypto, BTC and others do not use central repository, which could wipe out all the holdings in case of server crash; or if a user misplaces his or her private key – a distinguishing characteristic from stablecoins.

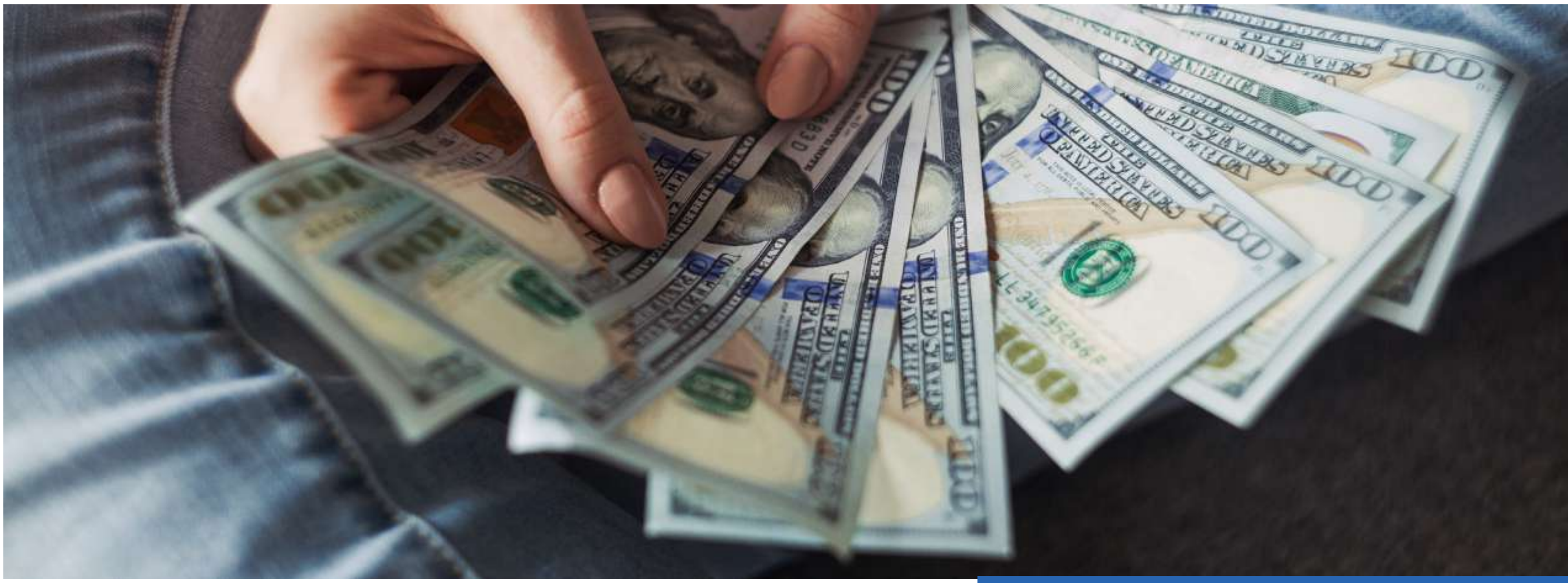
In a long explanation of how Bitcoin works in reality, Citi GPS noted,

Bitcoin miners are computers running the Bitcoin core software client. Each instance of the software maintains a copy of the Bitcoin ledger or database. The Bitcoin ledger is maintained in the form of a chain of blocks in which each block stores the cryptographic hash of the previous block (hence blockchain). An owner of a Bitcoin, sends it to a receiver by signing a transaction and transmitting to the Bitcoin chain through a node. The transaction signature is created based on the (1) sender's private key; (2) receiver's public key; (3) transaction timestamp; and (4) transaction amount. The nodes verify the authenticity of the transaction.

All valid transactions are then put in a queue called 'Mempool' from where miners pull out the transactions and start bundling them in a block, the hash of which takes in individual transaction signatures, hash of the previous block and timestamp, and a random nonce to create hash of the current block. The hash of the new block must meet some conditions set by the Bitcoin protocol — this is the cryptographic puzzle that miners solve. Each block requires solving a different mathematical puzzle chosen from a very large set of similar puzzles. Each block's problem is equally hard to solve.

3. Loss of bank deposits.

4. Limited uptake asdemonstrated by the rollout in Nigeria where less than 0.5% of Nigerians were found to be using the eNaira[29].



In order to solve this mathematical problem, a lot of computational power is used (and thus a lot of electricity).

The 'proof-of-work' is the computational power expended to create a hash of the new block that meets the conditions set by the protocol and it is achieved through brute force by trying out different values of nonce as the input for hash function. Once the cryptographic puzzle is solved (Bitcoin protocol conditions are met), the miner then transmits the block to the network and other miners will verify it by looking for a random number that, once inserted into the hash function, yields the right number of leading zeroes in the output. Once verified, the block can be added to the blockchain and is distributed to all other nodes on the network. All the nodes in the network will update their copy of the Bitcoin ledger with this new block. The miner that mined the block will then be rewarded with a 'block reward' aka 'mined Bitcoins'.

After the block is added to the chain, every block added on top of it counts as 'confirmation' for the block. If the current blockchain is 625 blocks long and my transaction is in the 620th block — that means my transaction has 'five' confirmations.

It is referred to as a confirmation because every time another block is added on top of it, the blockchain reaches consensus again on the complete transaction history, including your transaction and your block. In other words, your transaction has been confirmed five (5) times by the blockchain at that point. The more confirmations your transaction has, the deeper the block is embedded in the chain and harder it is for attackers to alter it.

30. ibid.

31. As eCedi has already been piloted and currently under review

32. Anneke Kosse and Ilaria Mattei, BIS Papers No 125: Gaining Momentum – Results of the 2021 BIS Survey on Central Bank Digital Currencires, Bank for International Settlements, (May 2022) Gaining momentum – Results of the 2021 BIS survey on central bank digital currencies (accessed May 4, 2023)

33. n (29)

> The reliance on cryptography – the mathematical process of encoding and decoding information - helps in ensuring the security of transactions (over a decade of history of not being hacked); operating on anonymous basis; and without assigning control to any single participant.

The complex chain of computerised operations driving Bitcoin innovations has been extended in decentralised finance (DeFi) by enabling complex P2P, mutualised, financial instruments; and applications that run on smart contracts on public permission-less blockchains – mostly built on the Ethereum blockchain[34]. The programmability, transparency, permission-less, non-custodial, and lack of intermediaries, among others, make DeFi solutions attractive for consideration; despite their risks and challenges.

Bitcoin and others are not developing without criticism. Many, including Agustin Carstens, General Manager of the Bank for International Settlement, continue to highlight 3 main issues – value stability; technical robustness; and efficiency as major concerns cryptocurrencies must address. And for skeptics such as Willem Buiter, Bitcoin remains "an asset without intrinsic value, whose market value can be anything or nothing[35].

A full-scale analysis of all emerging digital payment instruments cannot be achieved in an article. It relates more to the back-end than the front-end results. Nonetheless, the true measure of the outcomes of the ongoing contest between fully developed form of money – fiat and its evolving digital version (CBDC) - controlled, issued and supervised by central authority; and private decentralised efforts to eliminate intermediaries between participants in the use of money would greatly be influenced by regulatory responses; and consumer adoptions in the coming years.

It is an undeniable fact that the gig economy is upon us; and the digital revolution is amplifying the adaptation of everything digital. However, dynamics of the current global financial sector do not offer clearer picture for prediction of the future of money; with any degree of certainty. What would not turn out to be a fake prophecy is money (in terms of banknotes and coins) would continue to co-exist with all emerging digital payment instruments – public and private. At worse, private decentralised efforts may fade; and give way to the dominance of money and its digital versions, CBDCs; as two kings cannot rule over the same kingdom. Jeremy Hunt was right when he affirmed: "Cash is here to stay" [36].

THE CHANGING LANDSCAPE – WHAT ARE THE ENABLERS?

In the midst of the competitive challenge, the uses of traditional money – banknotes and coins - are not changing. People still use "money" either as unit of account, store of value or as medium of exchange. The changes we are experiencing are in the end-user behavioural landscape, influencing what money is being used for; advances in technologies permitting convenient, fast and secure ways of payments and the use of money; while new business models are pushing the conventional limits; and innovating the forms and uses of payment instruments, generally.

Emerging technologies have become key enabler for the current changes; and likely future of the form and uses of money. In the process, new business models are evolving as challengers to traditional financial service providers, some of which are considered below.

I. THE NEW NORM: INFLUENCE OF EMERGING TECHNOLOGIES

Improvements in existing payment instruments such as cheques, banknotes, coins, etc., were made possible; and have been enabled by technology. Moreso, the advances in technology drove the current development of digital payment tools; and are enabling new ones such as CBDCs, cryptocurrencies (Bitcoin and Stablecoins), among others. In recent times, Artificial Intelligent (AI) has proven to be the foremost important driver of technology's influence on financial services. The influence of AI is being felt across all industries, resulting in high global adoption rate. According to McKinsey, digital was 2.5x higher in 2022 than in 2017″. Moreover, AI has the ability to analyse large datasets (big data); and provide deep insights into payments flows. This offers the opportunity for greater operational controls, risk management, fraud prevention; and data-driven decision making, which makes AI uses more exciting for the financial sector[38].

AI has been normalised and its capabilities are embedded in processes allowing automation, computer vision, natural-language text understanding, virtual agents; or conversational interfaces, among others; and this is significantly improving the customer relationship management of service organisations. The field of AI has seen the fastest evolution. Innovations in terms of algorithms and modelling; and in terms of technologies are accelerating.

While the last few years have seen the democratisation of deep learning and cloud computing, the next few years could bring algorithmic and technological disruptions, with the emergence of new paradigms (edge AI, low-code, etc.)[39]. Closely linked to AI is Machine Learning (ML). While AI illustrates the capacity of computer system to mimic human cognitive functions, such as learning and problem-solving, ML aids mathematical models of data to help a computer learn without direct instructions from humans; with the possibility to continually learn and improve, based on experience.

Following the increasing levels of automated processes and digitised transformations in financial services, service providers are leveraging AI and Machine learning in handling "Big data" and predicting market trends. A key enhancement to this technology is the AI-powered chatbot and virtual assistants, which have been pre-programmed to provide solutions to customers through data analysis of consumer patterns over a period. Although these changes would not have any impact on the form of money, their relevance is in the operational advantages they provide to service providers in cutting down operational costs; while efficiently serving customers' needs; and making more accurate predictions.

Developing on the back of AI and ML is blockchain technology – a back-end infrastructure technology without prominent consumer interface, unlike AI. Blockchains are peer-to-peer network based on cryptography that creates decentralised, immutable ledger for recording information and transaction, free from any central authority although could be private or public[40]. Its utility is underscored by its use in the design of new digital currencies like CBDCs; either linked to distributed ledger technology (DLT) or not, enabling the transfer of financial value.

All blockchains are DLT, a digital database held and updated by distributed network participants, independent of any central authority. The process of the creation of tokens (tokenisation), which are codes on blockchain has enabled the trading; and transfer of ownership and titles of value independently; and directly via digital ledger either as real-world assets or financial assets – the basis of cryptocurrencies, stablecoins, and CBDCs. These are some of the real use cases of blockchain technology in the design of new payment instruments – providing open-source platforms that anybody could use and build on, spurring innovation and network effects; and giving rise to new, interoperable financial services and vibrant ecosystems[41].

34. ibid.
35. Willem H Buiter, "Schrodinger's Bitcoin", Project Syndicate, February 12, 2021
36. HM Treasury, "HM Treasury and Bank of England consider plans for a digital pound" (news story), 7 February 2023. See also Commons Library briefing paper Financial Services and Markets Bill 2022-23 (CBP-9594), 30 November 2022, p47-51.
37. McKinsey Digital, Tech Highlights from 2022 – in Eight Charts
38. ibid.
39. Sia Partners, Artificial Intelligence Trends for 2022-2023
40. Citi GPS, Global Perspectives & Solutions, Money, Tokens, and Games – Blockchain's next billion users and trillions in value, (March 2023), Money, Tokens, and Games (citi.com) accessed May 4, 2023
41. The World Bank Group, Fintech and the Future of Finance, Market and Policy Implications, 2023
42. n (42)

However, the successful adoption of blockchain into the mainstream requires the help of other technology enablers, including decentralised digital identities, zero-knowledge proofs, oracles and secure bridges[42]. Technology, generally, holds the key to ensuring these enablers are enhanced in the bid to realise blockchain's full potential as the bedrock of emerging digital payment instruments.

Also, the following emerging technologies would power new ways of financial services delivery and uses of money – particularly in digital or electronic formats. They would further enhance user experiences and provide real-time insights for managing end-user relationships; and offer protections against the potential risks of cyber-security breaches, fraud, identity thefts, etc.:

1. Internet-of-Things (IoT): This concept relates to the collective invisible network of connected devices permitting communication between internet-enabled devices and cloud services. With this innovation, devices connected to the internet are integrated and powered to allow seamless connectivity; and access over multiple smart devices such as computers, cars, mobile devices, wearables and home appliances, among others. The opportunity of IoT which is linked to the real-time collection and exchange of data across multiple smart devices; IoT applications; and graphical user interfaces is to allow financial service users to participate in emerging financial

services on multiple connected devices. With 5G technology on the horizon, the opportunities for connectivity would become unimaginable.

2. Voice authentication, augmented reality and virtual reality: Generally, people are preferring to talk to call; or type, as part of communication with others. And we are beginning to see the effects on the purchase journey of consumers; where people are switching to the use of transactional commands through connected devices as part of their digital engagements. Voice authentication technologies are being built and adopted to provide security for transactions forming part of this wave of engagement. Further, being integrated into the purchasing processes are authentication methods, using computer vision such as facial recognition, behaviour biometrics; and gesture-based biometrics for faster and more secure online experience.

3. Digital identity and user authentication technologies: Gradually, the use of PIN would give way to new identity forms – normalisation of digital identity and authentication. This would enable biometric-based verification at all end-user touchpoints for financial services, reducing fraud immensely. Two-factor authentication would become the minimum level of user authentication; as more robust security systems which trigger notifications and alerts are emerging.

I. THE BIG CHANGES: NEW BUSINESS MODELS

The banking industry or financial sector which provides institutional support for the form and use of money is undergoing drastic transformation. Quite rapidly, new service models underpinned by new financial services and products are emerging. These trends are contributing to the call for the complete digitalisation of money, including CBDCs and cryptocurrencies.

Apart from central banks shaping the future of financial services through regulatory permissions and oversights, two key players – traditional banks and fintech companies - are also driving new banking business models which are primarily focused on digital products and services; with the aim of promoting financial inclusion for all.

To ensure robust design and deployment of banking business models for the future, traditional banks must draw on their legacy capabilities; such as the long history of operation and heritage, people, established business models, customers; and systems to attract the benefits of technology and innovation, speed, reduced cost of operation, potential reach; and youthful innovators available to Fintech companies.

As noted by Capgemini Invent , financial services of the future must be intelligent financial service products; characterised by the ability to customise, advise, adjust, connect, personalise, contextualise, respect, adapt and interact. This means traditional banks and Fintech companies cannot focus their energies on competing, but on collaborating to leverage their complementary advantages. The possibility of any of the following emerging business modes to succeed would be highly dependent on such collaborations:

1. Banking as a service:
The concept of Software as a Service, which is a shift from the practice of buying, installing and maintaining software on hardware devices; to accessing software through web-based platform as on-demand service is emerging strongly. In banking, Banking as a Service is beginning to take shape as the next-generation business model gives banks the ability to leverage their investments in information technology (IT); by getting other banks usually smaller or local banks to switch from their outdated IT to modern platforms . The adoption of emerging technologies is not without huge financial costs and regulatory compliance demands. Usually, smaller banks are unable to sustain these investments; and BaaS offers the opportunity for them to leverage modern banking platforms at a lesser cost. Also, BaaS can enable entities without banking licenses such as retail stores to offer financial products through white labelling; as ways of increasing consumer experience, driving sales and increasing profitability in the future. Other benefits of easy customisation, access to low setup and infrastructure costs, scalability and security, among others, for SaaS, could inure to BaaS models.

2. Platform business models:
Over the years, independent non-banking companies such as tech companies and retail giants have mastered; and demonstrated utility of the platform approach to their business growth. They have created excellent user experiences limiting the need for consumer alternatives. Aggressively, some of these companies are innovating their own financial products to eliminate the need for banking service providers; and traditional banks and Fintech companies must work together to build platforms that integrate relevant industry players across multiple value chains for consumer retention. Financial service providers must elevate existing partnerships with selected service providers to co-creation programmes where data could be leveraged for monetised initiatives via platform designs.

3. Embedded banking: New business opportunities are being created by Fintech innovations. Some existing rails such as the development digital payment ecosystem in Ghana offer the opportunity for the integration of financial and non-financial products into a single end-user interface. Through embedded finance, banking functionality is absorbed into physical products, technology; or platforms for creating seamless customer experience[46]. Financial service providers must explore the integration of growing business verticals such as ride-hailing, food and other deliveries, where payments could be integrated with other financial services such as lending, insurance and investing. The opportunities for new lines of business and revenue streams are limitless.

4. Invisible finance: It is an entirely futuristic financial business model with no current comparable. According to Capgemini Invent, "invisible finance will become the most successful species – effectively becoming the Homo sapiens of Financial Services business models." It is described as "a non-financial product or service that includes an indistinguishable finance capacity. This goes so far that the necessary financial functions are an integral part of the overall product and hence inseparable from each other... connects banking products with non-financial products and services. From a customer experience perspective, they become invisible. The focus is on connecting and integrating Financial Services advisory and products with life-event-driven products and transactions"[47]. The prospect of creators of non-financial products and services integrating full financial capabilities; and making them

inseparable from their products or services makes invisible finance contender of the preferred financial business model of the future; given the current changing shopping and purchasing behaviours of consumers.

The above business models are not an exhaustive list of models shaping the future of money. The writer anticipates the existing traditional banking system, with relevant adoption of technology; and Fintech sole service models such as neo banks to also make significant impacts on the future of money. Technology has widely opened the doors of possibilities; and only time, research and data-driven insights within the boundaries of permitted banking activities could provide some definitive business models that could support the use of money as payment instruments in the future.

CONCLUSION

Any predictive task is a difficult one. Getting predictions right is almost near-impossibilities. However, the long history of the structure of the current financial sector, trends and insights; although in a rapidly changing technological era, count for some certainty about the future of money. On this note, the writer is fortified to make the following predictions about the future of money (banknotes, coins and its allied versions):

1. Cash would continue to dominate payment instruments, accounting for not less than 50% of global payments over the next two decades despite the deployment of new digital payment instruments.

2. Fintech innovations would not be the mainstay of the financial services sector; traditional banks would continue to enjoy greater patronage of financial services subject to improvements in investments in technologies, systems and people.

3. Central banks would continue to exercise state control over the issuance and use of money – either as cash or in any digital format (CBDCs or Cryptocurrencies).

4. Consumer protection would be enhanced with the deployment of emerging technologies against fraud, cyber breaches, identity thefts, etc. ◻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Payment Systems Insight: Exploring Latest Trends and Innovation in the World of Payments and Financial Services

Bossman Kwapong
Country Director for Ghana at Mastercard

Evolution of Payment Systems

The evolution of payment systems has been driven by technological advancements; and the increasing demand for faster, more secure and convenient transactions. The introduction of online payment systems in the 1990s marked significant milestone, allowing individuals to make electronic payments; and shop online. This convenience and security led to the widespread adoption of digital payment systems; and growth of online commerce.

The rise of mobile phones and handheld devices has brought about another revolution in payment systems. Mobile payment systems like Apple Pay, Samsung Pay; and Google Pay have gained popularity due to their convenience and ease of use. Consumers can now make payments on the go, using their smartphones, eliminating the need for physical cash or cards. This shift has transformed the way people engage in commerce, leading to the era of e-commerce.

Companies like Mastercard have recognised the potential of digital payments; and have made strategic investments in businesses like Jumia, an e-commerce platform in Africa. This partnership aims to enhance e-commerce operations; and drive digital transformation in Africa by leveraging Mastercard's expertise in payments technology and infrastructure.

E-wallets, or digital wallets, have emerged as a game-changer in the payment systems landscape. These wallets securely store payment information, providing consumers with convenient and secure way to manage their payment details for seamless transactions, both online and in physical stores. They have bridged the gap between different payment methods, offering unified solution for consumers.

Contactless payments have also gained popularity in recent years, allowing consumers to make transactions without physical contact with payment terminals. Enabled through mobile devices or physical cards using near field communication (NFC) technology, contactless payments offer faster checkout experience; and reduce the risk of germ transmission. Mastercard has been promoting the adoption of contactless payments, increasing Card Verification Method (CVM) limits in several countries across the Middle East and Africa to enhance the purchase experience.

Further, Mastercard has invested in QR technology, offering affordable and accessible solution for consumers to make push payments. QR technology addresses the issue of low acceptance rates, particularly for micro-, small- and medium-sized enterprises (MSMEs), by providing easy-to-implement, low-cost solution. It plays vital role in transforming consumer behaviour by promoting a shift away from cash towards electronic payments.

Blockchain technology has brought new opportunities to payment systems by enabling secure and transparent transactions without intermediaries. Blockchain has the potential to revolutionise payments by reducing fees; enhancing security; and improving transaction speed. Mastercard is enthusiastic about embracing blockchain and other technologies to create more efficient systems; and promote financial inclusion.

Cross-border transactions

Cross-border transactions have seen significant growth with the rise of globalisation, e-commerce; and the digital economy. However, challenges such as complexity and cost hinder seamless transactions. Innovation in cross-border payment systems has led to the development of digital platforms that offer faster, cheaper; and more transparent transactions. Technologies like blockchain, artificial intelligence and machine learning have reduced costs; and frictions associated with cross-border payments.

Collaboration among regulators, central banks, and financial institutions is promoting interoperability; and standardisation in cross-border payments. The goal is to achieve faster, cheaper; and more transparent transactions by 2025. As technology advances, cross-border transactions would continue to evolve. The global nature of finance and payments makes foreign exchange and international regulations critical components of the global economy. Continued innovation and collaborations hold the promise of making cross-border payments faster, cheaper; and more secure.

What the future looks like

As we approach the end of this decade, significant innovations are set to transform the way we do business; and shape “the next economy.” This includes reimagining money; new value exchange methods; intelligent experiences; and greater emphasis on inclusivity and sustainability. Mastercard is leading the charge in adapting payment systems to meet changing expectations; emerging technologies; and regulatory collaboration. Our report, “The Future of Payments,” explores nine forthcoming innovations that would revolutionise transactions; and create more seamless and efficient payment system. With strong commitment to shaping the future of payments, Mastercard is driving commerce, embracing innovation; and empowering businesses and consumers.

Tokenisation

Tokenisation is rapidly changing the way we think about exchanging value. By tokenising assets, such as digital goods, cryptocurrencies and data, consumers and businesses gain access to wider range of assets; and can exchange new forms of value. This shift towards tokenised world has the potential to unlock previously inaccessible wealth; and create new business models. The opportunities for innovation and growth in this space are immense, with the global tokenisation market projected to reach US$24 trillion in financial assets alone, by 2027.

Programmable payment

Businesses face challenges with slow and inefficient payment processes. Programmable payment flows are seen as a solution, automating transactions based on pre-programmed rules. While simple programmable payments are already in use, such as automatic monthly mortgage payments or subscription renewals, more advanced automation is required for complex commercial needs, such as large supply chains with multiple participants.

Emerging programmable payment solutions connect business events through APIs, leveraging AI, smart contracts; and machine-to-machine interactions. Projects by J.P. Morgan, Siemens AG and DBS in Singapore are exploring programmable payments. DBS, for instance, is piloting purpose-bound vouchers using tokenised SGD for instant merchant payments. By 2030, programmable payments could become the industry norm, reducing operational costs; and improving speed and service through intelligent payment options; and value-added services like cybersecurity and verification.

Ubiquitous wallets

While consumer demand for simplified and seamless journeys is evident, using wallets today is often a fragmented experience. The wallet of the future would allow users to verify identities and manage their data; provide customised financial insights; and act as an "in-store remote," enabling personalised online and in-store experiences. This development, driven by the continued digitisation of the economy, is leading us towards always-on, ever-present and ubiquitous wallets. Tomorrow's wallet would consolidate how we use cards, digital identity, house keys, office access cards, passwords, driver's licenses and more.

Connected finance

One of the current challenges across digital and physical environments is, payment options are often limited, with lack of instant access in every channel. Connected finance aims to connect assets in any environment; whether digital, physical or virtual, to provide universal access to payments and other financial services. Open banking plays crucial role in enabling this connectivity, allowing consumers and small businesses to provide access to their financial data to third parties, leading to the creation of new banking and payment solutions. Connected finance also extends to messaging apps, where new payment capabilities are being integrated, fostering social and conversational commerce.

Borderless rails

While globalisation challenges are ever-present, restrictions on the flow of payments currently exist across two types of borders — geographic and digital. The former are often jurisdictional, resulting in friction when sending cross-border payments; and challenges for banks and commercial entities in settlement speed, costs and risks. The latter, including digital platforms and walled gardens (environments like the Apple App Store and Facebook that control user access to content and services), are due to lack of payment interoperability between digital ecosystems.

Borderless rails aim to reduce or remove the friction in sending payments across geographic and digital borders. Consumer demand and regulatory action are the driving

Borderless rails aim to reduce or remove the friction in sending payments across geographic and digital borders.

forces behind creating better cross-border experience. Companies like Wise and Revolut are focusing on facilitating cross-border flows; while regulators are pushing for payment interoperability and fairness within digital ecosystems. Bilateral and multilateral cross-border payment systems are being explored, with successful initiatives linking payment services between countries.

Unleashing acceptance

Unleashing acceptance involves leveraging new technologies to securely extend payment options for merchants. By utilising technologies like 5G, cloud and new devices, merchants can eliminate the need for fixed point of sale, making any mobile device, commerce device. This not only simplifies merchant acceptance rollout, but also reduces the cost of acceptance infrastructure; and increases the utility of acceptance services, driving greater financial inclusion.

Improved messaging at check-out; and enhanced data insights provide consumers with more personalised and secure payment experience. In the next few years, we can expect proliferation of acceptance options; and new interaction points to permeate consumer experiences.

Inclusive credit

The pandemic has highlighted the importance of supporting unbanked and underbanked individuals; and small businesses with limited credit access. Efforts to improve credit inclusion involve developing payment products for diverse needs; and conducting financial literacy campaigns. Initiatives like generative AI and Operation HOPE aim to enhance financial education; while companies like Experian Boost and Nova Credit leverage data to improve credit scores.

Additionally, Mastercard's Jaza Duka platform provides digital lending for small businesses in Kenya; and mfarmpay offers loans to unbanked farmers in East Africa. Mastercard's Farm Pass connects farmers and buyers, promoting financial inclusion.

Greater and more inclusive access to credit would accelerate in the near term, potentially transforming the lives of the excluded; and powering global economic growth. Banks, Fintechs and other digital players that can provide more equitable and inclusive credit would also benefit from additional growth opportunities.

Conscious consumerism

Conscious consumerism

is a growing trend driven by Generation (Gen) Z and Millennials who prefer to support companies aligned with their values on environmental, social and governance (ESG) issues. Consumer awareness is growing, with Gen Z willing to pay more for purpose-driven brands; and prioritise ethically produced goods.

Companies with high ESG performance tend to be more competitive, profitable and stable. Meeting this trend requires companies to prove their credentials; and avoid greenwashing through improved supply chain transparency. Loyalty programmes can also be realigned to cater to conscious consumers. Through embedding information in payment applications, companies can empower consumers to make eco-friendly choices. For example, Mastercard collaborated with Doconomy to develop the Carbon Calculator, allowing users to track the carbon footprint of their purchases.

With greater awareness in the near term, we expect accelerating momentum in purpose-driven payment flows; as consumers favour businesses that realise ESG or net zero goals; and businesses that are locally sourced and operate ethically. Banks and merchants that demonstrate they could align their products and services with the customer's values would outperform cohorts that don't evolve with the conscious consumer.

Embedded trust

In the digital age, cybercrime and fraud have raised concerns; and eroded consumer trust. To rebuild trust, companies must adopt new technologies like encryption, tokenisation; and zero trust architecture to protect data; and verify identification accurately. Privacy-enhancing technologies (PETs) allow organisations to analyse sensitive data without compromising privacy, enabling personalised experiences; while safeguarding individuals' information. Zero trust strategies, which authenticate and continuously verify users, have been adopted more by government agencies to enhance network security; and user identification.

Protecting customers is becoming essential due to regulations; and companies that earn and maintain trust can differentiate themselves; and expand their business models in the future. By prioritising trust, businesses can leverage it as valuable asset in a competitive landscape.

Conclusion

Looking ahead, the payments and financial services industry would undergo rapid evolution due to technological advancements, shifting consumer behaviour; and the rise of e-commerce. To navigate these changes, global co-operation and collaboration between countries and financial institutions are crucial. The future holds great potential for the industry; and it would be fascinating to witness the ongoing impact of innovation and emerging trends.
Mastercard, as technology provider and brand innovation partner, focuses on addressing pain points; and advancing financial inclusion in African communities. Our technology enables digital partners to control their consumers' digital commerce needs, enhancing interactions and experiences. By offering multi-use, omnichannel digital payment solutions, Mastercard helps partners improve operational efficiency; diversify revenue; and seamlessly transition to digital commerce. We invest in the right technologies, platforms, infrastructure; and Fintech partnerships to provide comprehensive capabilities across various use cases. Mastercard's global commitment is to bring 1 billion people into the digital economy by 2025, including 50 million small businesses; and 25 million women entrepreneurs, thus bridging the digital divide; and promoting financial inclusion. In Ghana and across the region, Mastercard drives financial inclusion through secure and convenient digital financial services; digital literacy initiatives; extended acceptance infrastructure; and compatible solutions for women entrepreneurs, empowering them to grow their businesses; and support their families. ◻

"The Payments and Financial Services Industry would undergo rapid evolution due to technological advancements and changing consumer behaviour."

Investing for the Future:
Exploring New Investment Opportunities and Strategies to Make Smart Financial Decisions

Melissa Mateki Leonora Akita

Last year, majority of Ghanaians who had invested in mutual funds and bonds were disappointed. The returns they expected did not materialise due to the macroeconomic conditions in the country. In addition, the valuation of mutual fund units was updated to the fair value which meant unitholders exiting the fund triggered their redemptions at current market prices; which resulted in losses because of the declining bond prices.

In a related development, the Domestic Debt Exchange Programme (DDEP) was announced to invite individual bondholders to exchange their old bonds for new bonds with lower coupons and longer tenures (Ministry of Finance, 2023). This did not go down well with the majority of bondholders; and after several discussions with the Government, new terms were offered.

Looking at all that occurred last year, people want to know how to invest for the future. Additionally, people are asking how they could make smart financial decisions in the current economic environment.

Strategies to make Smart Financial Decisions

In the present economy, people are compelled to live from pay-cheque to pay-cheque. However, this approach is not sustainable. Hence, there is a need to make smart financial decisions that would yield returns in the immediate-term as well as in future. Some strategies to consider include:

1. ***Have a financial plan:*** Set financial goals for yourself for the short- (1 year), medium- (5 years) and long-term (15 years). These financial goals should be backed by a plan. A short-term goal could include paying off debt or saving towards the establishment of a business.

2. ***Create a budget:*** Once you have identified all your expenses and your income streams, create realistic budget that aligns with your financial goals. After identifying expenses, make sure to cut down on some of them; and prioritise spending. By tracking income and expenses, you are strategically positioned to make better spending decisions. Review your budget regularly to ensure you are on track; and update with any changes to expenses or income.

3. ***Automate your savings:*** Set up recurring transfers to designated savings or investment account, so you could consistently save towards your financial goals (Securian Financial, n.d.).

4. ***Build an emergency fund:*** One needs an emergency fund to cater for unplanned expenses or financial emergencies like car repairs, home repairs, medical bills, etc. The coronavirus outbreak was one example of how an emergency fund could help when crisis occurs. Experts advise that one should have 3 to 6 months' worth of living expenses in their emergency fund (Blume, 2021). A good place to park your emergency fund would be in high-interest savings account; where the money is easily accessible in times of need. You could achieve your emergency funds by saving your next raise or bonus; cutting down on the amount you spend buying takeout; depositing tax refund into your emergency fund, etc.

5. ***Minimise debt:*** The first step is to list everything you owe including the creditor's name, outstanding amount, monthly payment obligation, and the interest rate associated with each account. It is essential to pay the minimum on all debts you have, quickly on time; and in full to avoid high-interest rates and late fees. In addition, do not take on more debt by making unnecessary purchases which would render managing debt more difficult. The principle is to pay off more than the minimum on high-interest debts first, so the amount of money you owe in the long-run would be reduced (Wells Fargo, n.d.). Finally, learn to commit unexpected windfalls like inheritances, bonuses and cash gifts to pay debt.

6. ***Seek financial advice:*** You could consider seeking financial help from financial planner or advisor, if you still have any issues. The financial planner or advisor could help in the development of tailored financial plan, based on goals, financial situation and risk tolerance.

Key Principles for Investing

When considering how to invest for your future, 3 key principles can be applied. These are:

1. ***Invest as early as possible:*** It is always advised to start investing at a young age, so one could see solid returns on the investment. By investing at young age, you benefit from the compounding effect, meaning your investment starts earning its own return. It also helps people to build wealth by putting their money to work; not working more. Assume someone invests GH¢500 monthly for 10 years, with an average annual rate of 10%. At the end of the period, the person would earn GH¢16,500. Of that amount, the person's contribution is GH¢12,000; and interest earned is GH¢4,500. As the saying goes, the best time to start investing was yesterday. Another reason to invest early is, inflation could cut into your savings if you don't invest. As of June 2023, inflation in Ghana was estimated at 42.5% (Ghana Statistical Service, 2023a). Hence, there is a need to hedge against this through investments. However, considering the fact that local investor confidence is at an all-time low, it remains imperative for one consider alternative ways of investing; which are covered in the next section.

2. ***Understand the investment options available:*** Most people do not understand the risk that comes with their investment. Every investment comes with risk. It is therefore important to conduct personal research; and determine if the risk inherent in the investment matches your risk appetite (Esajian, n.d.). If you are risk averse, you may prefer to invest in low-risk assets like treasury bills. For instance, last year, risk averse Ghanaians disinvested in mutual funds because they did not want to incur any more losses. However, others who were comfortable with greater risk saw an opportunity to purchase more units at lower prices.

3. ***Diversify your portfolio:*** There is high risk associated with owning a single asset, especially when one event could potentially wipe out all the investment. It is better to diversify one's investment across many industries, assets, geographies and sectors, so the impact of any one investment on the investment portfolio could be reduced (Esajian, n.d.). For instance, Ghanaians who invested all their retirement savings in either mutual funds, bonds, or ponzi schemes were badly affected; when their returns did not meet their expectations.

Invest for the Future

There are variety of styles of investing that help individuals meet their short- and long-term goals. Some factors that play a role in the investing style include age, financial goals, lifestyle, available capital, personal situation and expected returns, amongst others. Nonetheless, there are still many opportunities for Ghanaian consumers to build wealth; and achieve financial security. It must be noted that all these investment opportunities have their benefits and risks. Some ideas are listed below:

1. ***Farming:*** With the current economic situation, some Ghanaians have decided to go into farming, i.e., from production to processing and exportation. For the 1st quarter of 2023, Agriculture contributed 21% to Ghana's GDP (Ghana Statistical Service, 2023b). It is noted for contributing to the export earnings of the country. However, it must be stated that farming is capital-intensive and very risky due to yield uncertainties, prices; and other unpredictable factors. As such, anyone who wants to venture into farming needs proper planning, management; and the right skill set to succeed. Some areas for farming to consider are rice farming, catfish farming and poultry farming.

2. ***Business Set-up:*** The effect of the current economy has led other people to consider setting up their businesses. Though capital intensive, the returns are high in the long-run. Some business areas to consider are selling clothes, retail grocery stores, food sales, blogging, content creation, etc.

3. ***Private Equity:*** It is a source of investment capital from high-net-worth individuals and firms to buy; and manage companies that are not publicly traded on the stock exchange. By doing so, the buyers could obtain control over the company; and other operational changes to increase profitability such that, they could sell to make profit in the future. (Howard, 2021). Private equity firms operate investment funds on behalf of their investors. Private equity strategies include venture capital (start-ups), growth equity (well-managed companies) and buyouts (struggling private or public companies).

4. ***Look for Emerging Trends:*** Emerging trends and markets like technology, renewable energy and other industries are expected to grow in the coming years. Hence, investing in such, either by learning about these industries and gaining skills in them; or providing capital for a business in such an industry, could provide solid returns.

5. ***Treasury Bill:*** Last, but not the least, one could go the traditional way of buying treasury bill from the Government for either 3 months, 6 months or 1 year. This is usually considered one of the safest ways to invest.

Based on the current economic situation in the country, it is best for people to continually monitor their investments, so they could make informed decisions at any point in time. For example, once notice your Once people notice a decline in their investments, they could decide to disinvest and find an alternative; or give that investment time to pick up. All these depend on the investor's risk appetite.

To conclude, making smart financial decisions is the responsibility of every individual. Although it takes time, effort and discipline, it could lead to positive rewards in the long run. It must be noted that these rewards are not guaranteed, so it behoves the potential investor to do due diligence; or conduct research on the risks involved in each investment; and seek professional help, where necessary.

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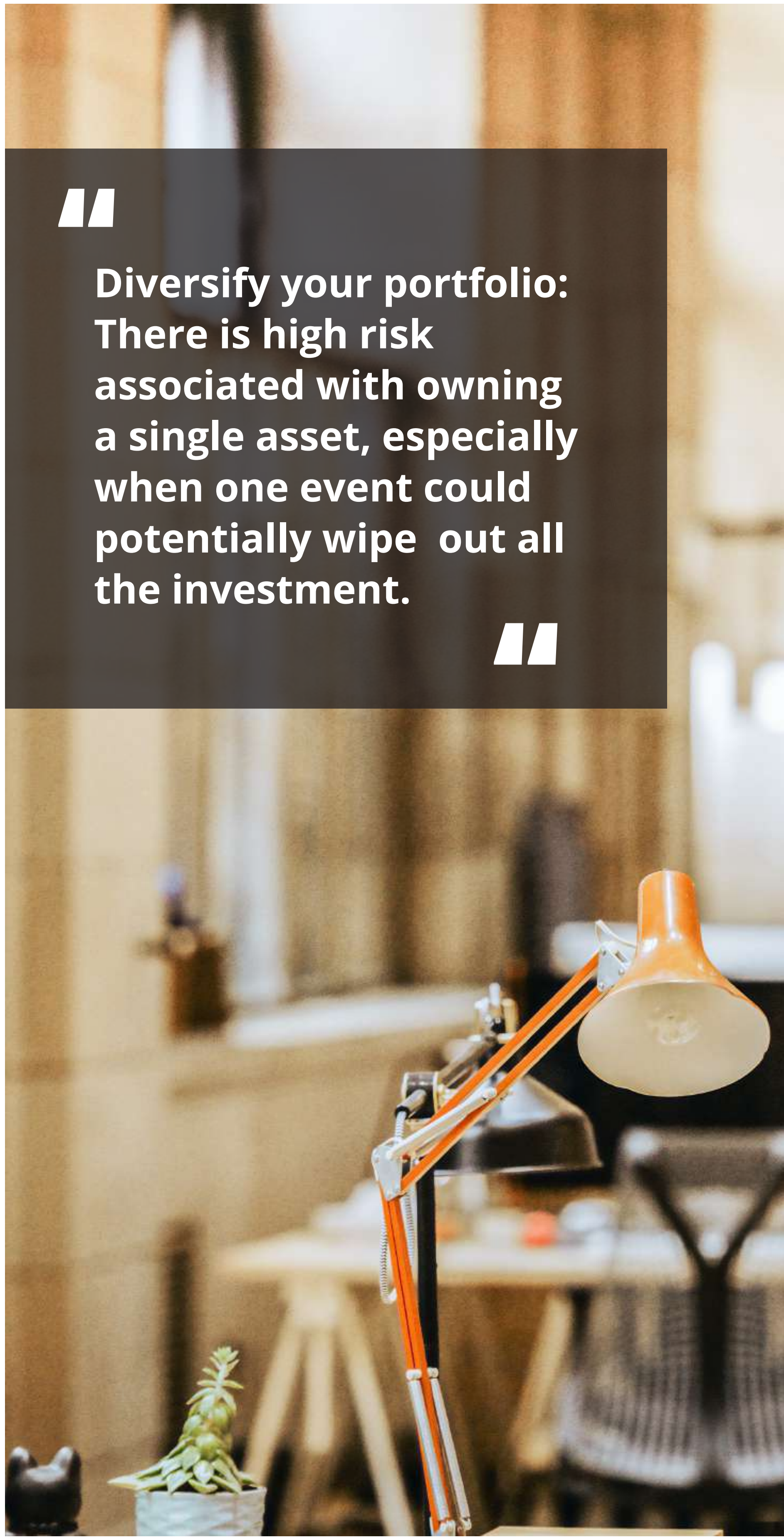


> **"Diversify your portfolio: There is high risk associated with owning a single asset, especially when one event could potentially wipe out all the investment."**

CHAMPIONING FINANCIAL INCLUSION IN GHANA'S BANKING SECTOR

- Agency Banking pioneer, Fidelity Bank upgrades offering with revamped Agency Plus points

Over a decade ago, Fidelity Bank set out on a journey to make banking accessible to all Ghanaians. One of the main pillars of this agenda was an endeavour that would enable anyone to carry out basic banking transactions beyond the usual banking hall. Through Agency networks, Ghanaians could access banking services at community pharmacies, supermarkets, mobile money vendors or newspaper stands.

It was not just the beginning of an ambitious undertaking, it would prove to be a pivotal step that would bring banking to the doorsteps of the unbanked and underbanked. At a time when players in the industry didn't consider inclusive banking an urgent strategic priority, Fidelity Bank's audacious enterprise underscored the Bank's commitment to champion financial inclusion within the local banking industry.

For a country where approximately 50% of the adult population is outside the formal banking sector (Afrobarometer Financial Inclusion Survey, 2019), it is not surprising that financial inclusion remains at the heart of Fidelity Bank's vision. Indeed, Fidelity Bank, the largest privately-owned Ghanaian Bank has played a large part in advancing financial inclusion nationwide and across economic sectors by overcoming two of the greatest barriers to financial inclusion: physical access and mindset change.

Adopting an insight-led approach

Prior to 2013, Fidelity Bank had identified major barriers to financial inclusion in Ghana and adopted an intentional approach to finding solutions. The Bank commissioned a fact-finding team which proceeded into selected rural and urban communities to glean insights from inhabitants. For instance: Why do some Ghanaians trust the 'Susu' collector more than they do the banks? Why is someone more likely to pay through their mobile wallet rather than using other banking products? The responses to these questions served as a basis for the eventual design of the Bank's Agency Banking model.

The Inception – Creating a dedicated department to drive the financial inclusion agenda

Fidelity's winning approach was two-fold.
The first stage was the creation of an Inclusive Banking department, the first of its kind in the Ghanaian banking industry, mandated to develop specialized products and services tailor-made to suit the unique needs of the target population. This was a bold stratagem which sought to bring aboard those who were either skeptical of the banking system or simply used to functioning outside of the banking system.

The inception of the Inclusive Banking Department enabled the bank to develop products such as the flagship Smart Account which proved to be a major addition to the Bank's product portfolio. The Smart Account is a minimum-effort "Know Your Customer" (KYC) requirement account that could be opened within five minutes. In rolling out this unique product, Fidelity became the first Bank officially licensed by the Bank of Ghana to offer KYC-lite accounts. Recently, the Smart Account has been further simplified to make it even more convenient with the inclusion of a revolutionary USSD feature that facilitates self-onboarding and enables customers to carry out banking transactions from the comfort of any basic feature phone. In addition, the Bank has also partnered with Mobile Network Operators as well as FinTechs to roll-out other specialized products and services for the target audience. Among these is the Yello Save account, a service borne out of a partnership with MTN which allows customers to make regular savings directly from their MoMo accounts. These inclusive innovations have already attracted a customer-base of over a million customers, most of whom were hitherto unbanked.

Stage 2 – Rolling out the Agency Banking Model

The second stage was the introduction of the Agency Banking model which proved to be a major game-changer for the Bank's financial inclusion agenda.

Fidelity Bank became the first financial institution licensed by the Bank of Ghana to undertake the Agency Banking model in Ghana back in 2013. During the initial three-month pilot in 2013, 130,000 accounts were opened with about 100 Fidelity Bank agents. Since then, the potential has proven to be limitless, and the agency banking model continues to grow exponentially, with over 5,000 agents dotted around the country today. In 2022 alone, Fidelity's Agency Banking service facilitated over 1.7 million transactions which is equivalent to 25% of all transactions across Fidelity's Branch network over the period.

At the institutional level, the project has been mainstreamed within the bank, enabling all the bank's clients to access banking services through agency banking. As a consequence, Fidelity Bank Agents are earning increased income through their agency banking activities. The Agent's association and business relationship with Fidelity Bank has also propelled these Agents to be financially independent and by extension, created employment for other Ghanaians down the value chain.

Amplifying the Agenda – The strategic partnership with Ghana Post

In 2019, having established Agency Banking as a linchpin in the bid to drive inclusivity within the Banking space, Fidelity Bank forged a strategic partnership with Ghana Post. Being one of the most widely networked companies countrywide, with a rich history of connecting Ghanaians across the country, Ghana Post provided the leverage for Fidelity to further scale up its widespread reach, especially within the regions.

The liaison immediately bore fruits in the form 35 Fidelity-Ghana Post agencies situated within Ghana posts offices, which are strategically placed and easily accessible in major communities across the country.

The objective at the inception of these specialized Agent Points was to facilitate easy and efficient transactions. Accordingly, the architecture of the Agent points, the training of its agents and the services on offer reflected same. This proved to be a highly successful endeavour as Fidelity's Ghana Post Agent points continue to record significant footfall and enormous patronage.

Indeed, a sizeable percentage of agency transactions within the period under review have been recorded at these specialized agencies.

The enhanced Ghana Post Agency Plus Offering

Guided by customer insight and a mutual commitment towards continuous improvement, Fidelity Bank and Ghana Post have recently launched an upgraded version of their Ghana Post outlets, aptly named Ghana Post Agency Plus points. These revamped outlets provide an augmented agency banking experience with several incremental enhancements over the existing agency model.

For starters, while the initial partnership offering, designed the Agent points to be mainly transactional with a focus on quick and efficient transactions, the current Agent Plus outlets place an emphasis on the holistic customer experience. Therefore, in addition to speed and efficiency, the design of the revamped Agent Plus spaces are hinged on giving customers a seamless, comfortable and enjoyable experience similar to what one would experience at a standard Fidelity Bank Branch.

Additionally, the new Agent Plus points also proffer an expanded scope of services to enable customers to carry out even more of their critical banking services from the comfort of their community Post Office. Whereas, the initial agencies offered a total of 12 banking services, customers will be able to undertake 13 additional services at the Agent Plus points bringing the total haul of services on offer to 25.

The additional services available at the Agent Plus outlets include cashing cheque deposits, requesting for prepaid and debit card issuance as well as PIN re-issuance, processing of loans, signing up for personal investment packages among others.

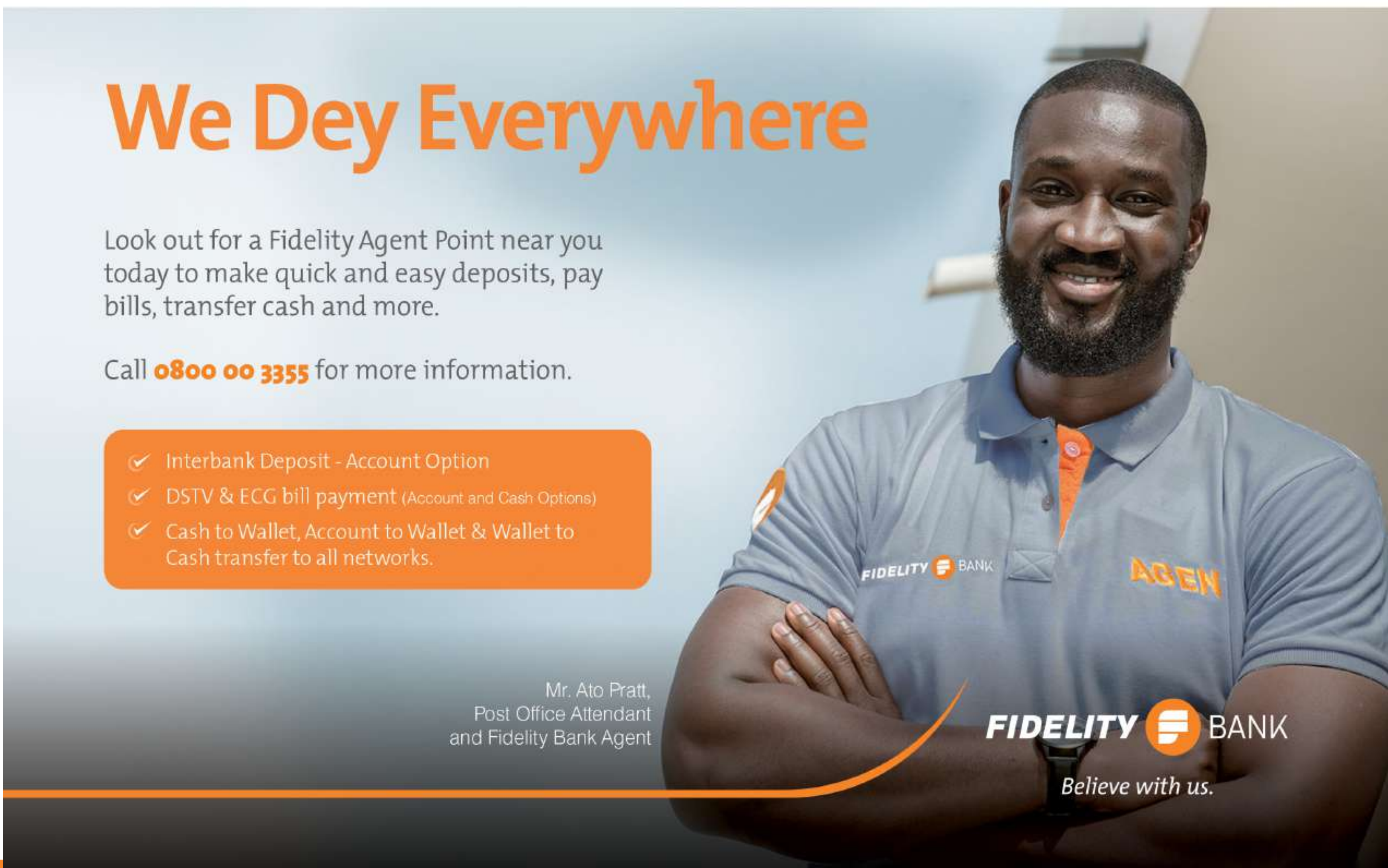
19 Agent Plus Points and counting...

Currently, 19 Agent Plus outlets are live, with many others expected to be progressively onboarded at Post Office locations throughout Ghana. Presently, Agent Plus points at Agogo, Tepa and Offinso in the Ashanti region; Kenyasi and Wenchi in the Bono and Ahafo regions; Agona Swedru, Dunkwa and Winneba in the Central region, Enyinasi, Asankragwa and Sefwi Bekwai in the Western North region, Asamankese, Mpraeso, Begoro and Kibi in the Eastern Region; Kajebi in the Oti region; Aflao and Kpando in the Volta region; as well as Cantonments and Accra New Town in the Greater Accra region are active and available to customers and the general public.

Steering massive financial inclusion through Agency Banking

Ten years after its inception, Fidelity Bank's Agency Banking model has proven to be the much-needed game-changer in the quest to absorb more eligible Ghanaians into the formal banking sector. Continuous enhancements such as the recently launched Agent Plus points indicate that Fidelity remains focused on raising the bar in the inclusive banking space through relevant digital innovation and optimized customer experience. A financially inclusive nation is a thriving nation, thus Fidelity Bank's efforts to combine the formal and informal sectors of the economy and transform the face of banking in communities across Ghana is worthy of applause and emulation.

The Bank continues to serve as a beacon of hope for Ghanaians and an exemplar of Ghanaian excellence. From its humble beginnings as a popular discount house, the Bank evolved into a fully-fledged Bank in 2006 and has since grown meteorically in just 16years to become Ghana's largest privately-owned Bank. It remains one of the country's most highly capitalized, financially robust and well-resourced Bank's, continually ranking among the top 5 on all critical industry benchmarks. Fidelity also continues to set the pace as an innovation leader in the Banking and Finance sector, with market-leading digital services such as the globally acclaimed Fidelity Mobile App, it's 24/7 WhatsApp Banking assistant code-named Kukua, and Fidelity's online banking service which facilitates remote account opening.



Sustainable Finance: Exploring the Intersection of Finance and Sustainability

Kwame Owusu Acheampong

Sustainability has become a significant topic for organisations, especially after the pandemic. There is now heightened interest in prioritising people and the planet in socio-economic decision making. Organisations that are committed to becoming responsible by integrating environmental, social and governance factors into the core of their operations, are attracting more investors. Though profitability and growth potential remain the primary focus of most investors, there has been a shift towards investing in greener portfolios. Sustainable businesses deliver short-term and long-term financial returns while generating positive value for society; and operating within environmental constraints.[1]

Sustainable finance refers to integrating environmental, social and governance (ESG) considerations into financial strategies, processes, products and practices. Environmental considerations include climate change mitigation, biodiversity preservation, prevention of waste and pollution. Social considerations include working conditions such as slavery, child labour, employee diversity, equity, inclusion and data protection. Governance considerations include executive pay, board diversity, structure and tax strategies.

The theory of sustainable finance is ingrained in the need to address the environmental and social challenges facing the world today. Government funds or efforts need to be complemented by private investment to transition to low-carbon, more resource-efficient and sustainable economies. Sustainable finance provides an opportunity to do that. By promoting investments that are environmentally and socially responsible, sustainable finance can contribute to achieving the Sustainable Development Goals (SDGs) set by the United Nations.

Evolution of Sustainable Finance – The Global Case

1. ***Principles for Responsible Investment (PRI):*** The Principles for Responsible Investment (PRI) is a set of voluntary guidelines for investors to integrate environmental, social and governance (ESG) factors into their investment decisions.[2] PRI was launched in 2006 by a group of institutional investors in collaboration with the United Nations Environment Programme Finance Initiative

1. Retrieved from https://www.accountingforsustainability.org/en/about-us/why-sustainability.html
2. Retrieved from https://www.lionguardcapital.com/responsibility

(UNEP FI); and the United Nations Global Compact. PRI has more than 4,000 signatories from over 60 countries, representing more than USD100 trillion in assets under management.

2. ***UN Sustainable Development Goals:*** The UN Sustainable Development Goals (SDGs) were adopted in 2015 as a universal call to action to end poverty, protect the planet; and ensure peace and prosperity for all. The SDGs provide framework for sustainable development; and have been instrumental in promoting sustainable finance by providing clear roadmap for investors to align their investments with sustainable development.

3. ***Paris Agreement:*** The Paris Agreement, signed in 2015, is a global agreement to combat climate change by limiting global warming to well below 2 degrees Celsius above pre-industrial levels. The agreement has been instrumental in promoting sustainable finance by providing framework for countries to integrate climate considerations into their economic and financial systems.

4. ***Task Force on Climate-related Financial Disclosures (TCFD):*** The TCFD, established by the Financial Stability Board in 2015, provides framework for companies to disclose climate-related risks and opportunities in their financial reporting. TCFD has been instrumental in promoting sustainable finance by improving the transparency and consistency of ESG reporting; and providing investors with the information they need to make informed investment decisions.

5. ***Net-Zero Commitments:*** Many countries, organisations and investors have made net zero commitments, pledging to reduce their greenhouse gas emissions to net zero by 2050 or earlier. These commitments have been instrumental in promoting sustainable finance by providing clear signal to investors that investments in sustainable projects and companies are necessary to achieve a net zero future.

6. Global sustainable investing assets rose to USD35.3 trillion in Europe, United States, Canada, Australasia and Japan in 2020. [4]

7. The issuance of green bonds in 2023 currently amounts to USD146.1bn. [5]

The African Case

1. ***Green Bond Programme:*** In 2018, the African Development Bank (AfDB) launched the Green Bond Programme to support sustainable infrastructure projects in Africa. The programme has already issued several green bonds to finance renewable energy projects; and other green infrastructure initiatives.

3. Retrieved from https://aunetwork.org/assessing-colombias-political-environment-for-achieving-sustainable-development-goals-challenges-and-opportunities
4. The Global Sustainable Investment Alliance (GSIA), 2021
5. Climate Bonds Initiative, 2023

2. ***Introduction of the African Development Bank's (AfDB) Sustainable Finance Framework in 2014:*** The framework aims to promote sustainable development by integrating ESG considerations into the bank's investment decision-making.

3. ***Africa Financial Alliance for Climate Change:*** In 2015, AfDB launched the Africa Financial Alliance for Climate Change, which aims to promote sustainable finance; and climate resilience in Africa.

4. ***African Continental Free Trade Area (AfCFTA):*** In 2018, AfCFTA was launched to promote sustainable economic development in Africa by increasing trade and investment among African countries. AfCFTA is expected to create opportunities for sustainable investment, green jobs and sustainable development in Africa.

The Ghanaian Case

1. ***Sustainable Banking Principles:*** In 2019, Bank of Ghana (BoG) launched the Ghana Sustainable Banking Principles (SBPs) to provide the guiding principles to underpin effective Environmental and Social Risk Management (ESRM) policy frameworks for banks.

2. ***ESG Disclosures Guidance Manual:*** The Ghana Stock Exchange launched the ESG Disclosures Guidance Manual in 2022. This manual would enable listed firms to collect, analyse, and publicly disclose important ESG information, using an approach that meets international standards in sustainability reporting.

Sustainable Finance Practices

There are many innovative financial instruments and approaches that promote sustainable finance. Sustainable finance relates to financial practices that seek to promote sustainable development and social responsibility. Examples include:

- ***Green bonds:*** These are fixed-income securities issued to finance projects with positive environmental benefits, such as renewable energy, energy efficiency and climate change adaptation.

- ***Socially responsible investing (SRI):*** This involves investing in companies with positive social impact, such as those in the business of promoting diversity, human rights and fair labour practices.

- ***Impact investing:*** This emphasises the concept of investing in companies or projects that have positive social or environmental impact, including clean energy or affordable housing.

- ***Sustainable loans:*** These are loans provided to companies or projects with the objective of ensuring sustainability in reducing carbon emissions or promoting renewable energy.

- ***Environmental, social and governance (ESG) investing:*** This relates to the decision to invest in companies characterised by high ESG scores based on their environmental, social and governance practices.

- ***Sustainable supply chain finance:*** This describes the process of providing financing to companies that have sustainable supply chains, such as those that prioritise ethical sourcing, fair trade and responsible production practices.

Sustainable finance could help create more equitable, resilient and sustainable future for both the environment and society. Sustainable finance practices encourage investment in projects with positive environmental and social impacts. For instance, financing renewable energy projects could contribute to significant reduction in carbon emissions; and improve air quality. It could encourage companies to adopt sustainable practices and reduce their environmental impact. As an illustration, companies seeking to attract sustainable finance may need to demonstrate their strong commitment towards environmental and social responsibility.

Sustainable finance could serve as an enabler towards improving access to finance for people and communities that have been historically underserved by traditional financial institutions; and potentially lead to greater economic opportunities and improved social outcomes.

Banks and Promotion of Financial Sustainability

Banks have a responsibility to promote sustainability because it is in their own best interest as well as the interest of their stakeholders; and society as a whole. By promoting sustainable practices, banks could be contributing immensely towards building more resilient, stable and equitable future for all. The following section sheds important light on the role of banks in the promotion of financial sustainability within the financial ecosystem.

1. ***Systemic risk:*** Banks are exposed to systemic risks associated with environmental and social factors such as climate change, resource scarcity and social unrest. In view of the foregoing, banks have strong interest in promoting sustainability to mitigate these risks.

2. ***Stakeholder expectations:*** There is increasing pressure on banks from stakeholders such as customers, employees and investors to demonstrate commitment to sustainability.

3. ***Long-term economic stability:*** Banks have a responsibility to promote long-term sustainability because they are central to the functioning of the global financial system. Promoting sustainability could help to ensure long-term stability; and health of the financial system.

4. ***Reputation risk:*** Banks could face reputational risks if they are associated with companies or projects that have negative environmental or social impacts. Promoting sustainability could help banks to avoid these risks and protect their reputation.

5. ***Regulatory pressure:*** Regulators are increasingly imposing environmental and social requirements on banks. Banks that fail to comply with these requirements may face financial penalties or reputational damage. In 2019, Bank of Ghana (BoG) launched the Ghana Sustainable Banking Principles (SBPs) to provide the guiding principles to underpin effective Environmental and Social Risk Management (ESRM) policy frameworks for banks.

Promoting financial sustainability within banks could bring numerous benefits, including mitigating environmental and social risks, enhancing reputation and customer loyalty, improving financial performance, complying with regulations and supporting the transition to a low-carbon economy.

Banks face several challenges in promoting financial sustainability. One of the challenges is lack of awareness and expertise. Some banks may not have the necessary awareness or expertise to fully understand and address environmental and social risks; and opportunities. Sustainability issues can be complex and

multifaceted, making it difficult for banks to fully understand and address them.

Additionally, some banks may face resistance to change from stakeholders who are more focused on short-term financial gains, or who are not fully supportive of sustainable practices. Banks may be concerned that sustainable investments may not be financially viable, which could make it difficult to justify investments in sustainable projects.

In conclusion, sustainable finance practices aim to integrate environmental, social and governance considerations into financial strategies, processes, products and practices. The goal is to promote sustainable development and social responsibility by encouraging investments that are environmentally and socially responsible. The increasing interest in sustainable finance is driven by the need to address environmental and social challenges that are facing the world today; and sustainable finance practices could contribute towards achieving the Sustainable Development Goals set by the United Nations. Organisations that fail to address environmental and social risks would be less resilient to these challenges; and place their existence at risk. The inference is, sustainable finance practices could be potentially beneficial to both society and businesses in the short- and long-term.

Future of Banking: Craving Opportunities for Mobile Banking and New Banking Models

Samuel Aluko

Ezekiel Effiong Akpan

Ever since Banca Monte dei Paschi di Siena first opened its doors in 1472, the banking industry has been experiencing development; from commercial banking, investment banking, technology and the global financial crisis; to the increasing shift towards environmental, social and governance (ESG). Amid these changes, the global financial sector has experienced declines in profitability. The return on equity (ROE) for the global banking industry has been on the decline recently; Statista reports, with the industry's average ROE falling to 8.6% in 2020; from 10.5% in 2019. These declines were attributed to factors such as technological disruptions, regulatory reforms and the COVID-19 pandemic. Yet, according to Statista statistics, worldwide bank assets increased to roughly 183 trillion US dollars in 2021; from 180.4 trillion US dollars in 2020, reflecting favourable trends in the global financial sector.

Overview of the African Banking Industry

The African banking industry comprises diverse banks identified as traditional commercial banks, development banks and Islamic banks. As of 2020, Sub-Saharan Africa's banking industry had total assets equal to 78.5 percent of the region's GDP. This was attributed to rising consumer confidence; and increased economic activity (Statista, 2022). Expansion of financial inclusion is one of the key forces behind the accelerated development of the African banking industry. Studies conducted by the World Bank revealed more than 60% of adults in Sub-Saharan Africa are unbanked, thereby pushing most African nations to enact laws to encourage financial inclusion.

This measure has positively driven down the unbanked population (World Bank, 2021). Similarly, Datareportal affirmed, a total of 5.44 billion people used mobile phones in early 2023, equating to 68% of the total global population. In the previous year, there have been 168 million additional unique mobile users; an increase of a little over 3%. In early 2023, there were 43.88 million active mobile phone connections in Ghana, which represented 129.8% of the country's total population; an increasing mobile penetration rate from 2022, which stood at 53.0% of the entire population.

Moreso, each African state has a different regulatory environment for its banking industry, with some having more stringent regulations than others. For instance, the Bank of Ghana (BoG) has received accolades for launching a regulatory sandbox as crucial instrument for creating legislative environment that supports ethical innovations; and fosters innovative business models.

In 2021, the Central Bank of Nigeria (CBN) launched the central bank digital currency (CBDC) called eNaira to complement existing notes and coins. Despite the noticeable growth in the African banking industry, challenges still exist. Some of these challenges include the high cost of credit; difficulty for small and medium-sized businesses in obtaining financing; and the scarcity of long-term financing.

Overview of the Ghanaian Banking Industry

The Ghanaian banking industry has experienced some significant reforms and growth in recent years. In 2018, the Bank of Ghana (BoG) increased the minimum capital requirement for banks to GHS400 million. This directive was in its quest to ensure capital sufficiency, systemic risk mitigation and customer need's fulfilment. Then again Further, the economy witnessed improvements in payment systems with the introduction of the Ghana Automated Clearing House (GACH); and the growing demand for mobile financial payment services.

The mobile financial services ecosystem has seen significant collaborative efforts from players within mobile telecommunication companies, banks, microfinance and FinTechs. The Bank of Ghana reported 42.4 million registered mobile money users as of June 2021, showcasing the increasing penetration; and financial inclusion rate. These reforms were largely executed with the assistance of Mobile Money Interoperability and several innovative technological solutions designed with end-users in mind.

Consequently, the careful reliance on technology has made banks more competitive; as it offers them the propensity to deliver an excellent customer experience. For instance, it is anticipated that the banking industry's IT investment would increase consistently and reach 715 billion US dollars in 2025 (Statista, 2022). The COVID-19 pandemic has accelerated the trend toward digital banking, with more customers using digital channels for banking transactions. According to a report by KPMG Ghana, between 2016 and 2020, there was huge jump in the uptake of mobile apps for digital channels; internet banking; and ATM usage. The most marked changes were a jump from 4% in 2016 to 30% in 2020 for weekly usage of mobile apps; and 3% in 2016 to 22% in 2020 for weekly usage of internet banking in Ghana.

Further, KPMG Banking Industry CX Survey 2022 revealed, 82% of respondents regularly used the mobile money channel relative to mobile apps (62%) and ATM (58%). 30% of mobile money channel users do that at least once a day compared to 24% of mobile app users who do that at least once a day. 39% of mobile money channel users do that on a monthly basis compared to 12% of mobile app users who do that on a monthly basis. In addition, the Bank of Ghana (BoG) report on payment systems oversight revealed 58% increase in the volume of mobile banking transactions from 34,842,318 in 2020 to 55,096,423 during 2021; relative to 28% increase in internet banking transactions from 7,055,793 during 2020 to 9,077,471 in 2021.

The above changes in the global, African and Ghanaian banking industries serve as a rallying call for banks, regulators and stakeholders to reengineer existing services and digital platforms needed to continually meet the needs of consumers; and be future-ready.

Future of Banking

Beyond how people live, work and communicate, the Fourth Industrial Revolution (4IR); and data-driven digital technologies are expected to further revolutionise how financial institutions do their business. Increasing mergers, acquisitions, divestiture, new entrants, evolving client; and customer needs in the digital environment as well as the increasing level of compliance are bound to influence firms' behaviour. Thus, it is imperative for the institutions to embrace technology as part of their strategies for the future of banking.

Financial players are regularly contemplating what the future holds for the banking industry. This is partly due to the uncertainties in the financial sector. However, it is commendable to think about insightful scenarios in the global financial sector. This effort could help financial institutions guard against fragility; and build the ability to anticipate challenges in the future. Former President of the Institute for the Future, Roy Amara, notably asserted, "we tend to overestimate the effect of technology in the short-run; and underestimate the effect in the long-run." In essence, this article is cautious in making suggestions regarding the future of banking; and possible opportunities in mobile banking and new banking models.

The COVID-19 pandemic has accelerated the trend toward digital banking, with more customers using digital channels for banking transactions.

Mobile Banking

The very nature of banking has changed due to advancements in digital technology. The first mobile money service in Europe was introduced by the German company Paybox, in association with Deutsche Bank at the tail end of the 1990s. Most of the European nations where it was initially used and tested were Germany, Spain, Sweden, Austria and the United Kingdom. Kenya was the first developing nation to launch M-Pesa, a text-based mobile banking service in 2007.

Financial technology advancements have made it possible to store money digitally, source funds directly from lenders and investors via the Internet; and send money digitally. The inference is, banks are now using a wide range of mobile technologies to distribute several banking services to meet consumer demands.

With digitally-enabled mobile banking product, customers are granted easy access to their bank accounts and mobile money accounts on their mobile devices; enabling them to carry out services including checking account balances, money transfers, bills payment, and much more. Mobile banking in Ghana started in 2009 when Bank of Ghana issued regulations for mobile financial services leading to the introduction of mobile money services by mobile telecommunication networks such as MTN Ghana, Vodafone and Airtel-Tigo.

Recent years have seen a rise in the popularity of mobile banking due to its accessibility and convenience. According to a report by Bank of Ghana, mobile money transactions in Ghana increased from GH¢ 78.5 billion (USD 13.5 billion) in 2019 to GH¢569.2 billion (USD 98.1 billion) in 2020 (Bank of Ghana, 2021). Although mobile service allows users to manage their finances on the go, appropriate security measures need to protect their personal and financial information when using mobile banking services.

Mobile Banking Opportunities

There are many opportunities for institutions in the Ghanaian banking industry. For example, there is a growing demand for mobile banking services, which have become increasingly popular in many parts of Ghana due to the convenience, accessibility; and additional digital banking products such as payments, investment, insurance and loans. Below are some of the opportunities in mobile banking.

Opportunity to sell an experience to consumers

The increasing digital transformation in financial service offerings as well as the increase in mobile phone penetration rates has transformed the way customers interact with money and their financial institutions (i.e., banks). In Ghana, there were 43.88 million active cellular mobile connections as of the beginning of 2023, which equated to 129.8% of the country's total population (DataReportal, 2023).

This upsurge in consumer preference for mobile banking offers banks the opportunity to optimise their digital channels for engagement; and community-building efforts. Banks can further

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(DataReportal, 2023).

re-engineer the customer's journey; and use conversational artificial intelligence (i.e., chatbots, virtual banking assistance, etc.) in meeting the digital needs of customers.

Consequently, banks are not only bound to customer propositions (i.e., investment, loans, and mortgages), but also to the delivery of personalised experiences to customers, including the provision of tailor-made financial advice; and product recommendation to customers, resulting in satisfaction and loyalty; as the customers feel their needs are being met.

Opportunity to save cost

Mobile-enabled payments have proven to lower the operational costs of banks (cost to serve a customer), as it reduces the need for physical cash handling and branch infrastructure.
In 2020, GSMA reported that mobile money providers saved an estimated $4.6 billion in cash handling costs globally.

This suggests mobile banking provides an opportunity for financial institutions that are looking to reduce the cost of cash handling which involves transporting, storing and securing huge sums of physical currencies. Therefore, banks can keep their digital channels more secure and incentivised to drive adoption; thereby reducing reliance on cash.

An increase in the adoption of mobile-enabled platforms could further help financial institutions reduce the cost of serving customers by reducing the number of branch networks. Transactions such as deposits, withdrawals and transfers, among others, could be done via the integration of mobile banking platforms to ATMs (Cash Deposit at ATMs, Cardless Withdrawal at ATMs, etc.) to reduce expenses such as rent and utilities, etc. These cost-cutting mechanisms could result in lower operational expenses for the banks; and assist them in decision-making on measures that would assure reduction in transaction costs to help drive up the adoption; and usage of mobile banking products.

Opportunity to improve security

Mobile banking provides security features such as biometric authentication, two-factor authentication, location-based authentication, fraud alerts, cards controls, encryptions, remote wiping, etc., needed to secure customers' personal identifiable information.
Banks could ensure customers who use mobile banking for transactions could have access to wide range of biometric authentication features including fingerprint scanning, facial recognition, voice recognition, etc. These functionalities make it more tedious for intruders to impersonate; and have access to customers' mobile banking accounts without permission.
Mobile banking firms have the opportunity to create security assurance by adhering to standards set by bodies such as the International Organisation for Standardisation (ISO) and Payment Card Industry Data Security Standard (PCI-DSS).
ISO compliance, for instance,

demonstrates the implementation of best practices for information security across the business environment; it confirms a firm has taken steps to identify and manage risks related to its information assets. PCI-DSS specifies standards for the secure processing of credit card data, including encryption, access controls; and routine testing and monitoring of security systems. Mobile banking solutions which adhere to these standards demonstrate to customers and stakeholders that they take security seriously. However, Complete security cannot be guaranteed by compliance alone; hence, companies should deliberately put in place extra security measures to cater to their unique demands and threats.

Opportunity to increase accessibility and inclusion

Technology has the potential to tackle issues around financial inclusion; and assist in the provision of equality of opportunities to access financial products and services. Financial institutions are equipped to improve customers' accessibility by using mobile banking since it is available 24/7. This feature allows customers to do transactions anytime, anywhere, making it beneficial for users during their busy schedules.

Data shared by the Bank of Ghana affirmed as at December 2020, 58% of adults in Ghana had access to formal financial services. Mobile banking dramatically increased financial access in rural areas. The convenient character of mobile banking allows users to engage in transactions on any day; and at almost anywhere and anytime. This attribute of convenience assists individuals who live in rural areas or have mobility challenges to have access to financial products and services.

Opportunities for New Banking Models

Banks seeking sustainable competition must come to terms with the fact that they would have to compete with non-bank stakeholders such as mobile telecommunication, FinTechs, insurance, investment and financial consulting firms vis-à-vis new business models (i.e., Platformisation, Open Banking, AI-enabled banking solutions, Big Data and Machine Learning solutions). Below are some of the new banking models that provide opportunities to financial institutions.

Banking Model for Challenger Banks

Challenger banks are digital-only banks that provide financial products and services using the internet, mobile applications, social media, among other important digital platforms. These digital-only banks stand-out for their extreme minimalism in design and functionality; as well as their simplification, ease of use and aesthetic appeal; all of which represent fundamental user experience (UX) concepts. Financial institutions have the option to adapt the more innovative; and customer-centric business models of challenger banks.

Challenger banks harness the power of technology and analytics in collecting customer digital footprints; finding patterns or insights from these digital footprints for reiteration of products and services to meet the changing needs of customers. Zeepay and ExpressPay are examples of challenger banks in the Ghanaian financial space. These challenger banks offer financial services such as mobile money, remittances; and payment processing on mobile applications built with user experience and interface properties.

Collaboratively, traditional banks could glean some insights from challenger banks' dexterity of mobile user experience. Further, they could form strategic partnerships with challenger banks in order to have access to the resources needed to be proactive in meeting the changing needs; and preferences of customers in the financial sector.

Neobanks' Banking Model

Neobanks are non-traditional banks that often focus on meeting the needs of one or more niche markets. Some of these niche markets include freelancers and

SMEs. Between 2021 and 2028, the global Neobanking market is anticipated to expand at a compound annual growth rate (CAGR) of 47.7%, reaching a value of $723.6 billion. Fido Money Lending is an example of Neobank that focuses on digital lending and financial inclusion. Eversend is also focused on international money transfers and travel. These Neobanks seek to give customers in Africa more convenient and accessible banking experience, using innovative technologies.

Hence, traditional banks looking to enter niche markets as part of product/service development efforts must take insights from the Neobank model. Traditional banks are also able to reduce operational costs since Neobank's business models are digitally oriented. The collaboration between DreamOval Limited, a Ghanaian FinTech business; and Stanbic Bank, a traditional bank in the nation, is an illustration of Neobank's relationship with traditional bank.

In accordance with this cooperation, Stanbic Bank grants DreamOval Limited access to its banking infrastructure, including its payment gateway and client onboarding system; so, DreamOval could provide its users with a range of financial services, such as bill payment, money transfers; and mobile payments.

In exchange, DreamOval Limited provides Stanbic Bank with its cutting-edge mobile payment technology and knowledge, enabling the latter to broaden its digital products; and attract new clients. This collaboration is advantageous for both parties, as it gives Stanbic Bank access to DreamOval's Limited cutting-edge technology and customer base; while DreamOval has access to Stanbic's banking products.

Open Banking Model

Open banking is a collaborative model in which banking data is shared via Application Programming Interfaces (APIs) between two or more unaffiliated parties. Based on data, open banking APIs create secure online financial marketplace. They also give new entrants quicker access to a bigger market through third-party providers.

In advanced markets, it is evident how open banking fosters financial inclusion; and serves as enablement for FinTech to build several banking products that meet consumer demands; and facilitate payments across different regions. It is estimated, in the next 12 months, 83% of banks worldwide would boost their spending in open banking efforts (IDC Financial Insights, 2021). With such investment, financial institutions would be able to connect with other organisations, applications and platforms outside the banking space; as API types and standards expand, opening new opportunities for selling their services; and services of their partners. Open banking remains a developing topic in Ghana. However, in February 2021, the Central Bank of Nigeria (CBN) officially launched the Open Banking Regulatory Framework which offered recommendations for safe and secure exchange of consumer data in Nigeria among financial institutions, third-party vendors; and other authorised parties.

Blockchain-Based Banking Model

This model of banking is underpinned by blockchain technology. Here, banks use distributed ledger technology to create decentralised, transparent and secured systems for transactions. According to KPMG, blockchain and cryptocurrency had record levels of investment in 2021 ($30.2 billion), followed by cybersecurity ($4.85 billion) and wealth tech ($1.62 billion).

A report by Accenture estimated blockchain could save banks up to $20 billion in infrastructure and operational costs by 2021. This benefit of using blockchain has seen banks increasingly investing in building secured payment systems to ensure speed, efficiency, transparency and security. For instance, Statista discovered that the financial industry's use of blockchain technology is anticipated to advance over the coming years, reaching a market size of about 22.5 billion US dollars in 2026.

Challenges of Mobile Banking and New Banking Models

Although these new mobile banking; and new banking models are challenging the traditional banking model, they are most likely to continue to evolve; and grow in popularity in the coming years. Nevertheless, there are evidence of challenges that come with these opportunities.

First, mobile banking relies on the use of digital technology, which could be vulnerable to cyber-attacks, data breaches; and other security risk, namely identity theft, fraud and money laundering. Beyond cyber security challenges, banks adapting new banking models are subject to regulatory compliance by their respective central banks to ensure customer and shareholder funds are protected.

Further, the adoption of mobile banking and new banking models hugely falls on customers since their demands drive financial institutions' implementation of open banking and blockchain solutions, among others. For mobile banking and new banking models to be successful and sustainable, banks and other financial institutions must aggressively address the identified difficulties or challenges.

Conclusion

Advancement in digital financial technology is altering the way banks would conduct business in the near and distant future. From leveraging emerging technologies such as AI, ML, blockchain, open banking, etc., to facilitating online transfer of financial assets and digital currency; to becoming more customer experience focused and competitive, financial institutions must carefully integrate some of the new banking models to foster consumer trust in the use of digital banking solutions.

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Payment Revolution:

Recent Developments and Disruptions in the Payment Industry

The payments landscape grew steadily in 2021 due to technological advancements and shifting consumer preferences. This growth has been projected to reach $8.17 trillion by 2024, representing upward growth from $3.92 trillion in 2020 (Statista, 2023). This vast and complex industry encompasses various payment methods, including cash, credit/debit/prepaid card payments, virtual card payments, mobile payments, digital currencies, QR payments, etc. The payments revolution has been driven by various factors, including advancements in technology, changing consumer behaviour; and increasing demand for faster and more convenient payment methods.

Various use-cases include rise in the adoption of mobile payment solutions, such as Apple Pay, Google Wallet and Ali Pay, which allow consumers to digitally make purchases with their mobile devices. Another use-case is the growing popularity of cryptocurrencies, such as Bitcoin, Ethereum and Litecoin, which has also revolutionised the payments landscape by providing decentralised; and secure way to engage in and process transactions.

This increase in the adoption of payment solutions has spiked transaction volumes and values within the global payments landscape, resulting in revenue growth for the various financial service providers. There has also been an increase in investment within the payment landscape, where key stakeholders such as financial service providers (traditional banks and financial institutions, Fintech start-ups, payment service providers, etc.) are making huge investments to drive the adoption of technologies such as AI, blockchain, etc., into their payment solutions. This investment is projected to reach USD 1.7 trillion by 2026.

The foregoing projected investment in payment solutions, calls for close review of the current developments; and disruptions, which suggest how financial service providers can adopt new payment models and technologies to offer greater convenience, security and affordability to consumers. These disruptions are essential to modern economies, as they play critical role in facilitating transactions among businesses, consumers and regulatory bodies; which in turn, drive economic growth, deepen financial inclusion; and foster innovation.

Snapshot

According to KPMG (2022), central banks are continuously exploring

the adoption of a Central Bank Digital Currency (CBDC); and countries such as China, Nigeria, Ghana, England, France, Singapore, Sweden and Canada have already taken steps to launch or pilot the usage of CBDC to provide new levels of global access to central bank money; and digital payment services.

In 2022, the Bank of Ghana issued a Design Paper of the Digital Cedi (eCedi), which outlined motivations of the eCedI. This includes accessibility of the currency by individuals and businesses; and measures to mitigate the potential risks for the banking system disintermediation (Bank of Ghana, 2022). This development is seen as disruption to the legacy financial solutions which are heavily cash dependent; as traditional banks, Fintech firms and merchants would leverage the technology to innovatively revolutionise their existing solutions; and ensure digital currency becomes easily accessible to the public.

In Ghana, there has been wide adoption of real-time payment and settlement digitally, paving the way for more participation in the payment value chain by non-traditional banks such as FinTech and BigTech. This adoption is evidently seen in the use of mobile financial services by individuals and businesses to send money, pay bills; and collect fees electronically.

In 2021, the amount of online banking transactions rose dramatically by 132% to GH¢56.24 billion; while the value of mobile banking transactions increased by 101%, from GH¢ 12.94 billion in 2020 to GH¢ 26.11 billion in 2021; reaffirming the increasing adoption of real-time payment and settlement in Ghana (Bank of Ghana, 2022). This shows growing need for mobile financial service providers to leverage disruptive technologies in building consumer-friendly solutions to broaden the adoption of digital payment solutions in the country.

However, the global payments business, like any other, is subject to several risks that could have an impact on its stability, security and profitability. One of these risks includes cyberattacks. The growing reliance on digital forms of payment presents the possibility of cyberattacks and data breaches; and this is a major concern for the payments industry and its regulators. Attackers can steal sensitive data, including credit card numbers, bank account information; and Personal Identifiable Information, resulting in financial and reputational loss for payment service providers. Therefore, there is the need to make substantial investments in cybersecurity to mitigate fraudulent activities within the payments industry.

Recent Developments and Disruptions in the Payments Industry

Constant evolution of technology within the payments industry is disrupting the traditional forms of payment. While bringing both opportunities and threats for financial service providers, these innovations are making it simpler; and more convenient for customers to pay for goods and services.

Understanding current changes and upheavals in the payments sector, as well as what they mean for the future of payments, is crucial to the survival of service providers; and the overall payments industry.

Consumers are finding it simpler and more convenient to pay for products and services amid the emergence of mobile payments, contactless payments, peer-to-peer payments, open banking, blockchain technology and cryptocurrencies. These disruptive technologies are pushing conventional payment service providers to innovate, adapt; and remain sustainably competitive.

Open Banking

Open banking empowers consumers and businesses to access and exchange their financial data securely; and conveniently with authorised third-party providers through application programming interfaces (APIs). This has encouraged the creation of new financial services, enhanced customer experience; and heightened competition.

Between 2020 and 2024, the global open banking user base is anticipated to increase at an average annual pace of about 50%, with the European market being the largest. Open banking services were used by 24.7 million people as of 2020; by 2024, this figure is expected to reach 132.2 million (Statista, 2022).

Open banking frameworks have been implemented in several countries such as the United Kingdom (UK), Australia, Canada, Singapore, Germany, France, Spain and Nigeria. The UK demonstrated leadership in the implementation of open banking standards after its introduction in 2018 by offering open APIs that allow third parties to access consumer data in alignment with the Open Banking Standards in the UK, which require large banks to comply. Likewise, Canada saw the introduction of the Financial Data and Technology Association of Canada (FDATA).

In Africa, specifically Nigeria, guidelines for open banking were released by the Central Bank of Nigeria (CBN) in 2021, providing framework for banks; and other financial institutions to co-operate with external companies; and offer clients innovative financial services. In March 2023, the operating parameters for open banking in Nigeria were accepted by the Central Bank of Nigeria.

The primary objective was to analyse the needs of the industry for common API standards among financial service providers; develop those common API standards; provide sandbox environment to facilitate testing and certification, thereby creating an enabling environment to foster innovation within the financial payments industry.

To make better and more informed financial decisions, customers could use applications built on open banking framework to access their account information, transaction, payment history and others. In Ghana, several payment service providers are seen implementing Open APIs with notable use-case being MTN MoMo API.

MTN's goal is to expand access to its mobile money platform for merchants and financial service providers through flexible, yet consistent; and open standard in facilitating the management of payments and other financial services. This means technology firms can build innovative payment solutions that give customers access to their mobile money accounts.

In broad terms, open banking has the potential to be extremely advantageous to implementing countries by promoting financial inclusion; strengthening financial service accessibility; and boosting the effectiveness and security of payment systems.

Although there are obstacles to overcome, including regulatory and technological ones; as well as fostering confidence among customers and other stakeholders, it is expected that, banks and other players in the financial ecosystem will begin to take open banking seriously.

There is, however, the need to ensure appropriate security measures are in place to prevent unauthorised access; and protect consumers' financial data. To facilitate access, identify and mitigate any security; or privacy risk of open banking in the Ghanaian market, there is the need for key stakeholders in the market such as the Bank of Ghana (BoG), Data Protection Commission (DPC), Ghana Association of Banks (GAB), Ghana Fintech and Payment Association (GFPA) to partner players

within the financial payment ecosystem to assess the industry's readiness for open banking; draw out framework to guide the implementation and adoption of open APIs in Ghana.

Mobile Payments

Financial transactions carried out using mobile devices such as smartphones or tablets; and mobile payment apps or mobile wallets are referred to as mobile payments. Without using cash, cheques or credit cards, mobile payments enable people to make payments swiftly and conveniently.

Multiple countries are setting the global standard for the adoption and usage of mobile payments. These include China, India, United States of America, United Kingdom and Kenya, among others. With mobile payments making up more than 80% of all digital payments in China, the country has by far, the largest mobile payments market in the world. Two significant firms, Alipay and WeChat Pay, jointly control over 90% of the Chinese mobile payments market, which they dominate (Jiang & Murmann, 2022).

When it comes to mobile payment usage in Africa, Kenya is one of the leading countries with the renowned mobile payment application, M-Pesa, being widely used for transactions including bill payment; purchasing of goods and services; as well as sending and receiving money. Similarly, in Ghana, mobile payment solutions deployed by traditional banks, telcos (MTN mobile money, Vodafone cash, AirtelTigo money) and financial tech firms are widely used for transactions.
According to Bank of Ghana's Payment Systems Oversight Annual Report 2021, the volume of mobile payment transactions increased from 18.7 million in 2019 to 34.8 million in 2020; and to 55.1 million in 2021, representing 58.13% cumulative growth. Further, some of the use-cases of mobile payments in Ghana are found in person-to-person (P2P) payments where individuals send and receive money both locally and internationally - remittances and bill payments (i.e., water bills, electricity bills, schools fee, TV bills, etc.).

The new development of mobile payments has positively influenced the adoption of digital payments relative to traditional methods of payments, such as cash and cheques. Mobile payments have also improved customer experience, especially the convenience of transacting. Some peer-to-peer mobile payment platforms like Zeepay, ExpressPay, Slydepay, etc., allow users to send and receive money to their mobile money account; pay bills and fees, among others.

Further, adoption of mobile payments solutions has been recorded since the launch of the Mobile Money Interoperability (MMI) by Ghana Interbank Payment and Settlement Systems (GhIPSS), telcos, banks and payment service providers (Bank of Ghana, 2022).

However, due to the security and fraud issues associated with mobile payments, consumer confidence and system trust may be eroded. Many mobile payment solutions currently in use are extended closed-loop systems that only permit transactions between users who also use those platforms; or at best, other platforms with direct integration; and this expands on the need for open banking.

Mobile payments may be less useful due to inadequate interoperability; and users of mobile payment applications may find it more challenging to adopt the technology in their quest to perform cross-platform transactions (Bech & Hancock, 2020).

Contactless Payments

With the increasing dominance of eCommerce payments, customers find it very convenient to submit their card information online; or on mobile applications to make purchases, using either their prepaid, credit or debit cards; and this is evident in the total number of debit and prepaid cards issued; which increased to 5.7 million at the end of December 2021, from 5.3 million in 2020 (Bank of Ghana, 2022).

Evidently, customers can make purchases with the help of contactless card, which is a mode of payment that transmits data from mobile device or card to payment terminal using

technologies such as Near Field Communication (NFC), Radio Frequency Identification (RFID); or mobile wallets. Due to the ease of use and convenience, contactless payments have grown in popularity, with numerous merchants embracing this technology.

In Europe, paying with NFC or smart application is predicted to triple between 2020 and 2024; with players like Apple Pay, Google Pay and Samsung Pay leading the innovation race; and providing instances of contactless payment mechanisms. With the shared view by companies and financial institutions on contactless payments being safer and more practical substitute for conventional payment methods, the popularity of contactless payments has substantially increased in recent years.
Due to the more streamlined and effective payment method they offer, contactless payments are revolutionising the customer experience. Faster checkout times, better customer service; and lower payment processing costs are all advantages for retailers. For instance, in Ghana, retail establishments such as Melcom and Shoprite accept this form of payment, allowing customers to make purchases using mobile wallet or contactless card swiftly and easily; thereby reducing checkout time and increasing customer satisfaction.

Although most people believe contactless payments are secure, there is still a chance of fraud and data theft. Personally Identifiable Information (PII) of customers could be accessed by unauthorised persons if a device or card is lost or stolen. In terms of the adoption of contactless payment, customers sometimes have fewer alternatives available to them because not all retailers accept contactless payments. This is particularly true in developing nations where contactless payment infrastructure might not be well-developed.

Cryptocurrencies

Cryptocurrency is a type of digital or virtual currency that lacks a central bank; and is built on blockchain technology, which is a decentralised ledger technology used to store and validate transactions. These transactions are append-only, traceable and immutable. In 2009, the cryptocurrency known as Bitcoin was developed. Numerous new cryptocurrencies, such as Ethereum, Litecoin, Dodgecoin, Solana, Polygon and Cardona have been developed since then.
Over the years, services like peer-to-peer transfer, forex trading, investments, digital lending, money transfers, remittances, payment for goods and services, etc., are easily accessible using the technology. Market valuation of all cryptocurrencies as of April 2023 was over $2.2 trillion, with Bitcoin making up about 40% of that sum (CoinMarketCap, 2023).

By providing decentralised, safe and quick means to transmit and receive money, stablecoin like USDT (US Dollar Tether), which is an asset-backed cryptocurrency, has up-ended the traditional payments sector. Cryptocurrencies are now widely accepted as means of payment by merchants, businesses and financial institutions in developing and developed economies. In 2014, Microsoft started allowing users to deposit cryptocurrencies into their Microsoft accounts (BBC News, 2014). This allowed users to use their cryptocurrency to purchase movies, games, apps; and other forms of entertainment from the Xbox and Windows stores.

Goldman Sachs Group, in 2021, announced the creation of crypto trading team, acknowledging their investment in crypto trading (Markets Insider, 2021). In the higher education sector, University of Nicosia accepts payments of fees in cryptocurrency for specific programmes such as the MSc in Blockchain and Digital Currency (University of Nicosia, 2023). According to CoinMarketCap, the top ten (10) cryptocurrency exchanges in 2021 were Binance, Huobi, Coinbase, Kraken, Bitfinex, Bitstamp, Bittrex, KuCoin, OKEx, and Poloniex (CoinMarketCap, 2023). In terms of trading, the global crypto trading volume was over $1.8 trillion with Binance accumulating over $30 billion in daily trading volumes; and this was attributed to its offering of fast, secure and reliable way of performing peer-to-peer transactions. This success has led Binance to one of its recent partnerships in the African market with Showmax to incentivise the adoption of cryptocurrency for payments.

The volatility and regulatory uncertainties are some of the challenges businesses may face (Nikolova, 2023). For instance, in 2018, the Central Bank of Ghana announced that digital currencies such as Bitcoin are currently not licensed under the Payments System Act 2003 (Act 662) (Bank of Ghana, 2018), implying businesses that are considering adopting cryptocurrencies should carefully assess the advantages and disadvantages they may present to their customers.

Conclusion

The payments industry, largely driven by payment solutions built on contactless technology, open banking framework, mobile payments and cryptocurrencies, has experienced significant disruptions in recent years. Amid these changes, it is critical for financial service providers, tech firms, merchants and regulators to collaborate; and harness opportunities towards facilitating cross-border payments. The foregoing is the foundation on which the demand for cryptocurrency is built. Customer demand for accessibility, flexibility, experience, convenience and speed is the very goldmine where regulatory guidance could unearth the next spike in economic growth.

Financial service providers should take steps at building teams capable of strategising; and transitioning existing legacy systems to more adaptable and interoperable platforms on which innovative products could be designed to deepen the adoption of digital payment solutions; thereby scaling up revenue and return on investment.

Stakeholders who fail to prioritise innovation, compliance, customer centricity, data-driven insights, humanness, community and strategic partnership would largely remain unsustainable; and unable to deliver value in the global financial space. ◻

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Partnership: Spark of Innovation in the Financial Services Sector

Janice Abalo
Stephanie Tawiah

Partnerships have been an integral part of human history, from political alliances to business collaborations. But, in recent years, the growth of partnerships has surged, especially in the financial services sector. The global banking industry has witnessed significant increase in partnerships as companies recognise the value of working together to achieve common goals.

A study conducted in Canada, China, Germany, India, Singapore; the UK and US established that 98% of Fintechs identified areas where they believe their businesses could benefit from the support of a partner. Despite the perception that Fintechs are set to disrupt the banking industry, results from the survey showed consumers ranked banks as the *number 1* most-trusted to provide digital wallets, P2P payments, QR/ barcode-based payment apps; and "buy-now-pay-later" services. The data lends credence to the fact that payment networks; and financial institutions play major role in supporting Fintechs, especially where they do not meet the regulatory compliance requirement.

In April, despite eroding public trust in the banking industry, Apple partnered with Goldman Sachs' Marcus to offer a savings return of 4.15% per annum to customers (Mason, 2023). It is important to note, Apple does not have a banking license; as such, the company would not have been able to achieve this feat; if not for the partnership.

The growth of Ghana's mobile money market brought in its trail influx of Fintechs. These Fintechs have made it easier for customers to access global markets. Recognising this, the Bank of Ghana (BoG) introduced the Payment Services Provider (PSP) Act (Bank of Ghana, 2019) to regulate the business operations of Fintechs as well as protect customers This implied Fintechs could not offer their services if they were not licensed to do so. As such, for those Fintechs who could not meet the threshold, partnerships with banks, telecom firms and other Fintechs have proven beneficial.

The benefits of partnerships in the financial services sector are numerous, ranging from increased efficiency to enhanced customer experience. The Ghanaian financial services sector comprises three main categories: banking, insurance and capital markets; with the banking industry taking the lead as the most well-structured. According to Bank of Ghana (2021), the industry experienced sustained growth in total assets, deposits, and investments, indicating the need for partnerships to meet the growing demand for services.

Partnerships have become a popular trend in the banking industry in Ghana; with banks, Fintechs and other financial institutions forming alliances

to provide better services to customers. These partnerships offer range of benefits, including increased access to financial services, improved customer experience and enhanced innovation.

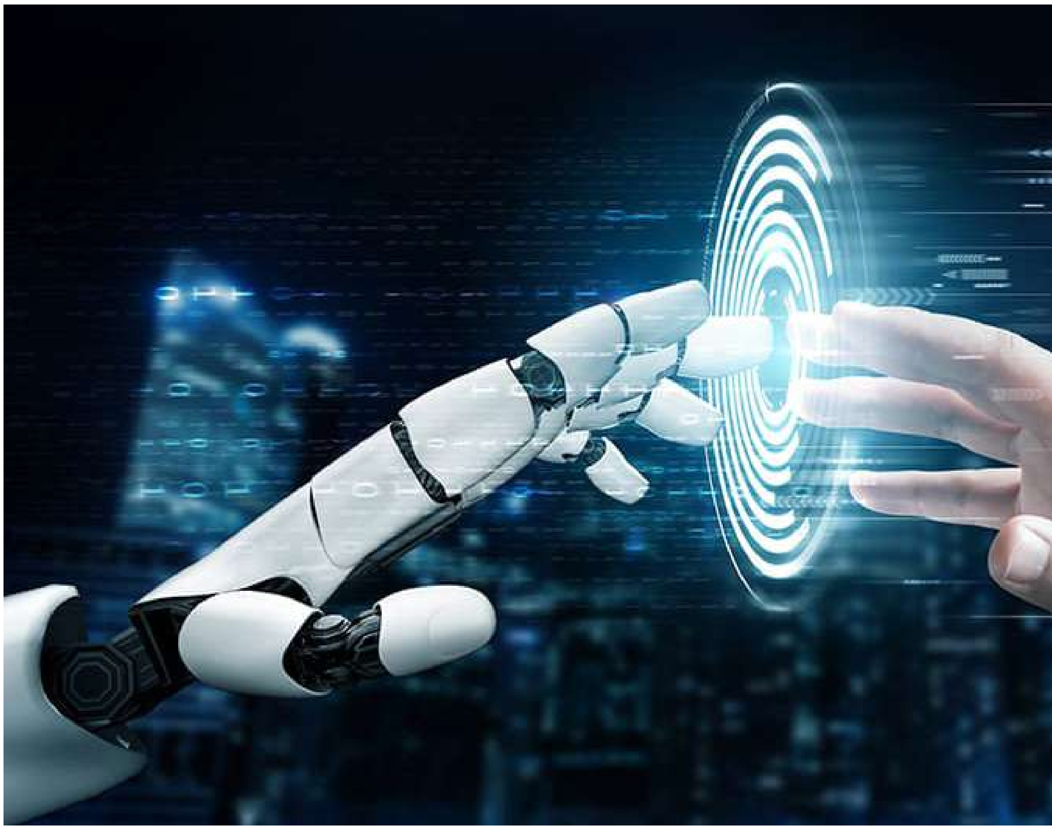
Fintech partnerships in particular, are becoming increasingly common in Ghana as companies look to leverage the expertise; and technology of existing Fintech companies to improve their services and reach more customers. While there is some competition between banks and Fintechs in areas such as lending and payments, there are many possibilities for collaboration and co-operation. Currently, the partnerships among banks, Fintechs and telecommunication networks are driving the progress of financial services in Ghana.

With a mission to build new culture of digital money in Africa, Fido has partnered selected banks to offer 'Fido Savings;' savings fund with variety of bespoke savings plans for customers to choose from. Without these partnerships, the astronomical rise in financial inclusion in Ghana over the last ten years would have been near-impossible. In a speech delivered by Dr. Ernest Addison, Governor of the Bank of Ghana at the recent Ghana Fintech Awards, he noted, increases in Ghana's financial inclusion of 58% and 68% in 2017 and 2021 were largely due to products and services delivered on the back of mobile money. Again, Fintechs have helped increase the accessibility of financial products and services in some of the most geographically challenging locations by partnering with banks.

Other types of partnerships in the banking industry include those between banks and other financial institutions such as insurance companies and investment firms. These partnerships enable banks to offer wider range of financial services to customers. Zenith Bank Ghana and Prudential Life Insurance entered long-term partnership in 2018 to offer four innovative bancassurance products, namely the Zenith Life, Education, Farewell and Hospital Cash Plans (Zenith Bank Ghana Limited, 2020). Guaranty Trust Bank Ghana and Databank have had longstanding relationship since 2015, allowing Databank to setup 'Databank Corners' within selected GT Bank branches across the country (GTBank Ghana, 2015).

Additionally, some partnerships are formed between banks and non-financial institutions such as telecommunications companies and retailers. These partnerships allow banks to reach new customers; and offer financial services through alternative channels such as mobile phones and retail outlets.

The power of partnerships in the financial services sector cannot be underestimated; it offers several benefits that could help players in the industry to thrive. One of the primary benefits of partnerships is increased efficiency; companies could streamline processes and reduce redundancies, resulting in cost savings and improved workflows. For instance, MTN Ghana has partnered several banks to launch mobile money service that allows customers to transfer funds between their mobile money wallets and bank accounts. This partnership does not only provide customers with greater convenience, but also helps to reduce the volume of physical transactions, leading to increased efficiency in the operations of both firms (APO Group-Africa & Ecobank, 2018).



Another significant benefit of partnerships in the financial services sector is the potential for enhanced customer experience. By combining resources and expertise, companies could offer more comprehensive and personalised services to their customers. Analysing customer data to understand their spending patterns, preferences and behaviours could help banks offer more personalised products and services. Further, real-time data analytics could be employed to identify fraudulent transactions; or unusual account behaviours.

Standard Chartered Bank (2020) partnered Visa to launch digital banking platform that provided customers with access to wide range of financial products and services. This partnership did not only offer customers greater convenience, but also enabled them to customise their banking experience according to their individual needs and preferences.

Partnerships within the financial services sector drive innovation and growth. By collaborating with other companies, organisations could leverage new technologies and ideas, leading to the development of innovative products and services.
Barclays Bank Ghana (now Absa) partnered Vodafone Ghana (Vodafone Ghana, 2018) to launch mobile banking service that allowed customers to perform transactions, using their mobile phones. This partnership enhanced convenience; and paved way for further innovation in the mobile banking space.

While partnerships in the financial services sector could yield significant benefits, there are also challenges and risks involved, making it essential to recognise and embrace. A pertinent challenge that exists is ensuring partners share common vision and goals; as well as compatible cultures and values. A successful strategic business partnership requires all parties to work together transparently, with mutual respect; and clear communication throughout the process.

Additionally, it is essential to establish a common objective at the start of the partnership, including "when" and "how;" and to ensure all parties agree. It's important to acknowledge that conflicts and issues would emerge during the integration of new strategies and work methods, before entering a partnership. Different institutions may have different cultures and ways of doing things, which could lead to misunderstandings and conflicts. Therefore, mitigation measures should be put in place to cater to them.

Additionally, partnerships could pose risks such as loss of control, conflicts of interest and reputational damage. Therefore, it is crucial for companies to establish clear guidelines; and communication channels to alleviate these risks. Companies must be agile in navigating obstacles throughout their collaborative journey.

Lastly, regulation and oversight pose risk to the survival of a partnership if they go unmonitored. In the banking industry, outdated infrastructure that existed before modern technology; strict regulations that prioritise risk management over innovation; and increasing demands for customised and efficient experiences from customers are all factors that make it challenging to operate. Fintech companies face difficulties in accessing the existing banking infrastructure; while regulatory requirements limit the impact of open banking on the industry. Introducing new practices in areas that are regulated and have established traditions can be very difficult.

Some of these barriers to partnership may be legitimate; while others can be eliminated or reduced. It is crucial that all stakeholders ensure partnerships do not compromise the safety and soundness of the financial system. They need to ensure customers are protected from potential risks such as fraud and data breaches.

In light of this, investors in the technology industry have been left reeling, as many had bet heavily on the growth potential of Silicon Valley Bank (Sullivan & Gura, 2023). With such significant setback, many are now scrambling to reassess their investment strategies; while some are even considering pulling their funds from the tech industry altogether.

In addition to the financial implications, this news raises important ethical questions about the role of technology in our society. The use of artificial intelligence has the potential to revolutionise many aspects of our lives. Nonetheless, it also carries with it significant risks and challenges. It is important to develop robust safety protocols and ethical frameworks to guide the use of AI; and other emerging technologies.

As the fallout continues to unfold, it is clear that the impact would be felt far beyond just the world of technology and finance. This serves as powerful reminder of the responsibility that comes with innovation; and the need for companies and individuals to act with integrity and foresight; as we continue to push the boundaries of what is possible.

> **"Partnerships within the financial services sector drive innovation and growth"**

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ESG: Taking a Bet to Grow Profitability

Bernard Owusu-Ansah

Summary

This article examines the opportunities presented by environmental, social and governance (ESG) considerations for banks to achieve sustainable and long-term growth; while fulfilling their vital role as responsible corporate citizens. It also explores practical and strategic insights which could guide banks and other businesses seeking to leverage ESG as a means of creating value for stakeholders. The article examines the relationship between ESG integration and profitable returns with specific focus on the banking industry; analysing the challenges and profitable ways that banks could implement the sustainability framework for good returns.

As the world faces pressing challenges such as climate change and social inequality, consumers and investors are demanding that companies take greater accountability and responsibility for their impact on the planet and society. Environmental, social and governance (ESG) considerations have become increasingly important in the business landscape, including those in the banking industry. Achieving the interconnected objectives of ESG and business to society, demands concerted interdisciplinary efforts. With the urgency and complexity increasing, it is essential that we get both experts of the science and finance professionals in the same room to ensure the right impact is consistently made at the right cost (and returns) to the bottom-line. For banks, this requires not only effective management of environmental and social risks, but also proactive approach to harnessing the potential of ESG to drive profitability and growth.

This article delves into the opportunities presented by ESG for banks to achieve sustainable and long-term growth; while fulfilling their vital role as responsible corporate citizens. It also explores practical and strategic insights which could guide banks; and other businesses seeking to leverage ESG as a means of creating value for stakeholders.

Evolving ESG Trends in Banking

First, it is important we establish the dichotomy between the two closely related (often interchanged) concepts; as they differ in scope and focus. ESG represent a set of non-financial factors which constitutes criteria framework that companies are expected to consider in their operations. Sustainability is a broader concept, which is concerned with meeting today's needs with current efforts without compromising the ability of future generations to produce the same value; or meet their needs from the same source of resource.

Sustainability encompasses ESG, but also extends to other economic and cultural dimensions. ESG factors are typically core

drivers of achieving sustainable business outcomes across several industries. For the financial services industry, organisations that adopt ESG principles and integrate them into their strategies and decision-making processes are typically better positioned to manage risks, enhance their reputation, attract and retain valuable customers; and create long-term value for stakeholders. By prioritising these factors, banks can demonstrate their commitment to sustainability; and contribute to the greater good of society; while pursuing profitability and growth.

The banking industry specifically has seen significant shifts towards ESG. A predominant trend is the consideration for environmental and social factors into various risk management frameworks. Loan and other investment portfolios are now being assessed through the ESG lens for their impact on biodiversity; Green House Gas (GHG) emissions; and other illicit trades. This helps in determining the preferred target-sectors for financing as well as the right policies, guidance and specific financing terms to include for the less desired sectors.

In more recent times, some banks have evolved to develop ESG-centric products (green loans, social bonds, ESG funds, etc.) for their domains as conduit to providing resources for sustainable projects. Other banks have also made changes to their governance systems by taking sterner look at board diversity, accountability; and using ESG-related performance indicators to motivate executives.

Post-COVID, social considerations of banks such as employee well-being; and customer support for loan recoveries have heightened.

Also, ESG has been recognised as a lever for business resilience; and has been given the needed attention in boardrooms. In some cases, banks have gone further to provide ESG-related training and education programmes to help their customers improve, including workshops and seminars on best practices; and online resources that help clients to track their ESG performance.

Today, several banking entities worldwide are using ESG as lynchpin for their business strategies to improve their current fortunes; and business viability. Since 2020, there has been an accelerated increase in strategic commitments from both global giants and local outfits on the subject. In April 2021, JP Morgan Chase committed $2.5 trillion to facilitating sustainable development (mostly climate-related initiatives) over 10years (JPMorgan Chase, 2021).

In addition to the financial commitments, other investment banks such as Goldman Sachs also committed advisory services to support businesses focused on sustainable infrastructure such as renewables; and other sources of clean energy. Other financial institutions such as Barclays have declared their intention to reach net zero emissions by 2050; in addition to launching green finance initiative to support climate-related projects.

BNP Paribas re-aligned its operations with the goals of the Paris Agreement, which required avoiding financing support for businesses that directly benefit (above 10% of their revenues) from coal mining by 2030. Locally, Standard Chartered Bank has implemented sustainable business policy that focuses on supporting economic sustainability; while Ecobank, in the wake of its Tier II Green Note issue, implemented various ESG strategies, including promoting sustainable energy; and financing renewable energy projects along with internal policies that focus on reducing the bank's carbon footprints; and promoting ethical business.

These initiatives have been necessary due to how intricately-linked ESG has been to the reputation; and brand engagement of banks over the years; and especially in today's business landscape. Failure to meet stakeholder expectations on this front could result in loss of customers; and reduced access to capital and reputational damage, which reduces competitive advantage. Additionally, banks are better positioned to attract and retain top talent, valuable customers and investments today, by differentiating with ESG, since the focus of most stakeholder groups is tuned to sustainability and social responsibility.

Environmental Considerations

Most observers are concerned about how banks and other corporate entities can effectively leverage environmental considerations in their operational activities since their core business does not significantly relate directly to environmental factors. Environmental risks such as climate change, natural resource depletion, biodiversity and pollution could have significant impacts on a company's financial performance, reputation and long-term viability. Banks must assess the impacts of these factors from the external environment on their internal corporate operations. As powerful economic drivers, banks have the uncommon ability to influence other sectors who have direct impact on the environment.

Natural resource depletion and climate risk exposures are likely to impact the lending and investment portfolios of banking institutions over time, resulting from potential property damages, policy changes adversely impacting carbon-intensive projects; and other subsequent reputational risks reducing returns on investments.

Cursory analysis of the various approaches adopted by organisations across different industries indicated how inventive practitioners have been over time; and the state of evolution, from preventative to acceptance with clear mitigation controls. In the general sense, banks are better-off managing their environmental risks by incorporating environmental risk assessments as critical aspects of their credit risk processes towards identification of potential issues associated with certain customers; and investment activities before, they crystalise to have adverse effects.

Subsequently, it is crucial that banks develop and implement environmental policies with the right authority; and tone at the top. This means an organisational-level commitment must be deliberately made known to all its people through trainings and capacity building; where the necessity and implications of these risks are explained along with emerging regulations and recommended lending practices. In some instances, banks must collaborate with their clients to have an impact on environmental factors. For instance, interest-based incentives can be given to businesses with positive environmental impacts; and in some dire cases, ones with credible sustainability reporting.

Banks in the local Ghanaian landscape have several opportunities to positively impact the environmental considerations. As a developing economy, the gap between total energy supplied by conventional means against the aggregate quantum of energy demanded, creates a market primed for renewable energy projects – which could be financed by banks. Many industries and households rely on inefficient equipment which consume high energy rates; and emit high greenhouse gases.

> **"Banks in the local Ghanaian landscape have several opportunities to positively impact the environmental considerations."**

Banks could develop strategies to support businesses with financing facilities that remedy the issues. Moreover, with agriculture being historical bedrock of the economy; and with great prospects for returns, banks could be deliberate with policies aimed at promoting eco-friendly farming practices. This can be achieved by deciding to finance the general transition from traditional farming practices (which could have significant environmental impacts) to sustainable agricultural projects like organic farming or regenerative agriculture.

Regarding longer yield-to-maturity,

local banks could invest in the advent of green building projects to complement their real estate portfolios. By constructing energy-efficient buildings or working with like-minded realtors to retrofit existing buildings with energy-saving features, banks would be contributing directly to the collective reduction of carbon footprints, thereby leading the charge for sustainable construction.

Within the waste management space, there are opportunities for banks to contribute to the circular economy by providing the required infrastructure to help address the limitation challenges; and promote sustainable waste management practices. Other unorthodox strategies include investment in forestry protection to revert deforestation, sustainable fisheries and eco-tourism. Also, engaging in corporate social activities could provide opportunities for banks to improve their environmental considerations when the activities are aimed at providing clean water and sanitation.

Social Considerations

While environmental factors are often at the forefront of ESG discussions, social considerations are equally crucial. Banks need to consider social factors such as human rights, labour practices; and diversity and inclusion, as they have significant impact on the sustainability of a business. Failure to manage social risks could lead to reputational damage; and legal and financial consequences which in turn, could impact a bank's bottom line.
Managing social risks requires a multifaceted approach that involves not only implementing policies, but also creating a culture that values diversity and inclusion. Banks could start by setting enterprise-level diversity and inclusion goals; and regularly measuring and informing stakeholders on their progress, at least through their annual reports. They could also offer training and education programmes to help employees understand and appreciate different perspectives. Additionally, banks could work with external stakeholders, including customers, suppliers and communities to ensure they are also meeting their expected social obligations.

In financing social projects, banks have an essential role to play, particularly in developing countries such as Ghana. Given the state of the housing sector in major Ghanaian cities, banks could have significant impact on financing affordable housing. By partnering with governments, private businesses and other non-profit organisations, banks could provide financing to developers that build affordable housing units. Banks could also develop innovative financing solutions such as green bonds; and social impact bonds, which could help channel funds towards social projects; while generating attractive returns for their investors.

Governance Considerations

Good corporate governance is a crucial factor for responsible banking; and pivotal component to business sustainability. As evidenced in the financial system clean-up in Ghana, where several indigenous banks collapsed; without the right governance system, a bank's reputation and financial stability could be compromised, which could negatively impact its stakeholders. Governance factors include transparency, accountability and ethical practices. It is essential that banks have strong governance framework that ensures compliance with, not only industry regulations, but also ethical standards.

Strategies for banks to ensure good governance practices include establishing independent board of directors; implementing effective risk management system; and regularly monitoring and reporting on performance metrics. Also, banks are responsible for ensuring their practices align with international governance standards, such as the guidance from the Basel Committee, International Institute of Directors and King's Report on Corporate Governance.

Banks are positioned to lead governance-related projects, such as improving their own board diversity; and that of institutions in which they hold controlling stake. A diverse board could bring different perspectives and expertise to decision-making, which could improve the bank's overall performance. In addition, banks could finance projects that focus on improving governance practices in other organisations, such as providing training or technical assistance to improve transparency and accountability.

By financing such projects, banks could promote good governance practices in the business ecosystem; improve the possibility of good business ethics becoming more of a norm than isolated practices reserved for bureaucracies; and contribute to the development of more sustainable society.

Quantitative Analysis of ESG Performance

As the conversation on ESG progresses, measuring ESG performance has become increasingly important for banks and other companies as proof of its tangible returns; with investors demanding greater transparency and accountability on the practice. The triple-bottom line concept (interdependency between financial outcomes, i.e., profits and socio-environmental impact on people and the planet) has gained much traction with the advent of integrated reporting.

Banks are starting to realise ESG factors are not just a matter of social responsibility, but could also have significant financial impacts. According to a report by the Global Sustainable Investment Alliance, global sustainable investment assets reached $35.3 trillion in 2020, up 15% from 2018, indicating growing trend among investors to consider ESG factors when making investment decisions (Global Sustainable Investment Alliance, 2020).

However, measuring and quantifying organisational ESG impact is quite challenging for entities without the appropriate level of understanding. Metrics like carbon footprint, board composition, inclusion, diversity and equality, customer satisfaction, employee and community engagement, privacy, water usage, waste management, executive compensation and risk management are all used as standard by organisations to measure their ESG performance. In addition to the above, banks can select specific performance indicators to quantify their ESG activities based on the reporting standards they choose to implement their sustainability programme with.

Standards like the Global Reporting Initiative (GRI) provide comprehensive framework for reporting; whereas others like Sustainability Accounting Standards Board (SASB) provide set of industry-specific standards for factors such as climate change, supply chain management; and other human rights concerns. Today, there are several indices on trading platforms that measure the sustainability performance of companies across several dimensions.

Global Case Studies

In recent years, there have been several cases of banks with high ESG score achievements, demonstrating strong financial performance. Spanish banking giant BBVA earned its reputation as one of the most sustainable banks in the world per its consistent placement in the Dow Jones Sustainability Index; inclusion in the FTSE4Good Index for the 20th consecutive year in 2022; received the maximum score of 100 in the Dow Jones Sustainability Index for Europe; and highest score of all European banks per S&P's Corporate Sustainability Assessments (E. S. G. News, 2022).

BBVA's commitment to sustainability has also helped to strengthen its financial performance, with the bank posting in 2021, its highest

recurring profit in 10 years (€5.07 billion); stemming from lower loan-loss provisions and positive turn in revenues (BBVA, 2022). Consequently, distributions to its shareholders have significantly increased as share buybacks have reached their peak levels; an indicator of the bank becoming sufficiently sustainable in its operations and outcomes.

Bulge bracket staple Bank of America has also made well-documented efforts on the ESG front with its "carbon neutral by 2020" target; whilst being recognised for its other social-level commitments such as having remarkably diverse workforce and board. It has also outlined range of initiatives to engage and support its employees and communities.

Bank of America's ESG performance has helped drive its financial performance, with consistent returns of more than $15 billion in net income across eight very eventful years (2015 – 2022); where the United States economy has hit both record longest period of economic growth (2016-2019); as well as pandemic-induced downturns resulting in approximately 30% drop in gross domestic product (GDP) annualised growth rate. The main drivers of these returns have been the strength of its balance sheet; focus on risk management; organic growth; and prudent expense management (Bank of America, 2022), all direct elements of sustainable banking practices.

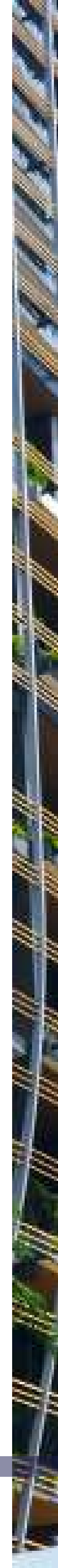
Standard Chartered Bank, a multinational bank with strong presence in the Ghanaian market, has strong commitment towards sustainability. This is evident in its ambitious and strategic declarations on both environmental (accelerating zero); and social issues (lifting global economic participation) (per Connell, 2021) coupled with its financing activities; and initiatives such as the Sustainable Deposits programme (allowing customers access to interests whilst supporting green projects with deposits), leading to recognition by several famed indices (Dow Jones Sustainability Index and the FTSE4Good) for its ESG performance. Over 90% of its sustainable finance assets are in emerging markets in Asia, Africa and the Middle East; with an aim to bridge the financing gap.

In January 2023, the bank reported 30% year-on-year growth of its sustainable finance assets to $13.5 billion; a major standout, in fact, greater return than the entire banking book; whilst helping to avoid 1.46 million tonnes of greenhouse emissions in 2022 alone (Standard Chartered, 2023).

ESG and Financial Performance in Banking

Banking books had traditionally relied on government securities for reliable, almost guaranteed, returns. With current inflation-induced pressures adversely affecting these returns, banks are at the crossroads of evaluation, considering options of other viable alternatives to boost returns for sustained growth. Historically, most entities had not always viewed ESG and sustainability as source of value, but rather, as cost centre; created to handle regulatory compliance.

The hiring of Chief Sustainability Officer or establishment of sustainability desk (tasked with philanthropic-based corporate social responsibility) were



steps that many took. However, it ended there. ESG was not seen as a strategic business lever, to be properly positioned; and implemented holistically to result in operationally transformed and improved profitability. Corporates have begun considering ESG as an investment with demonstrable strategic and financial outcomes; for it to be economically viable and address growing demand for new business paradigms. ESG investment over the years has witnessed high record in impacting finances; as corporate sustainability is finally evolving.

Modern literature on the subject indicates positive correlation between ESG performance; and financial performance in banking with numerous studies proving the assertion that, banks that integrate ESG considerations into their business operations and strategy tend to outperform those that do not. Research by credible institutions like the Harvard Business School showed, companies that invest in ESG initiatives tend to have lower cost of capital, higher valuation multiples; and consequently, higher profitability in the long-run, making ESG integration great business case.

Another quantitative study by financial analytics firm MSCI found that banks with high ESG ratings enjoyed lower cost of financing; and typically posted higher return on equity. Morgan Stanley's 2020 analytics of ESG ratings also showed in the long-term, companies with higher ratings obtain higher earnings growth over their lower-rated counterparts; whilst having similar risk-return profiles.

During 2019, the International Finance Corporation (IFC) specifically examined the business case for making ESG investments in emerging economies; and demonstrated its financial viability, suggesting it results in better investor returns; while aiding market development.

In 2020, HSBC reported its ESG-based assets grew by 47%, year-on-year, becoming major contributor to its overall profitability. In Brazil, Banco do Brasil's ESG fund outperformed the benchmarked Ibovespa index by large margin, in 2020; with returns of 20.4% compared to the index's 2.9% return. The fund's success was attributed to its focus on sustainable investments. In a special case, the Amalgamated Bank's women-led business programme which provides loans to women-led businesses returned higher than its overall loan portfolio; with corresponding lower delinquency as per its 2019 report.

Locally, banks have developed variations of ESG-related products to the African market; and have reported on their impact on their bottom-line indicators. Access Bank Ghana (a GRI-committed entity) initiated the "Green Club" in 2020 to offer investments to businesses with integrated sustainable practices to high subscription to the loan applications; and subsequent disbursements – good revenue indicators and profitability.

Similarly, Ecobank Transnational's "Ellevate" programme was aimed at improving diversity and inclusion in the workplace; whilst empowering women-led and women-focused organisations. This has resulted in higher employee engagement; and retention as well as improved customer satisfaction – indicators that reduce the operational cost component of the bank's profitability.

In 2015, when Nigeria's Guaranty Trust Bank (GT Bank) launched its first SME (Small Medium

Enterprise) Market Hub to support underprivileged businesses in the ecosystem, it charted a new revenue stream for the bank that several banks followed suit.

In Senegal, Société Générale reported positive impact on customer loyalty and brand image from its "Lionceaux" programme, which promotes inclusion among young people. In addition, when Ghana's Stanbic Bank introduced its "Women's Banking" initiative in 2018, it contributed to its overall customer acquisition and retention, precursors for long-term value.

ESG considerations could help banks identify potential risks and opportunities that may not be captured by traditional financial analysis, such as regulatory and reputational risks; and the impact of climate change and social issues on financial performance. This improves the long-term performance of investment portfolios by identifying companies that are better managed; and have stronger sustainability profiles, leading to better financial returns. This aligns with the growing interest for sustainable and responsible investment options among investors, who are increasingly looking to invest in companies that prioritise environmental, social and governance issues.

Relative Industrial Analysis

With banking being slow to mainstream ESG adoption, some banks have used their subsidiaries in other industries like asset management and or insurance. Asset management has been at the forefront of ESG integration, with many firms incorporating ESG factors into their investment processes for decades. This is in part since asset managers are typically more focused on long-term investment horizons; and are therefore, more likely to consider the impact of ESG factors on long-term financial performance. In the insurance industry, ESG integration has also been growing in importance, particularly in relation to climate-related risks. Insurers are increasingly recognising the potential impact of climate change on their business operations; and are taking steps to mitigate these risks.

The automotive industry for instance has been implementing ESG strategies to address concerns around emissions and climate change. Major operators like Tesla and Toyota have made significant investments in electric and hybrid vehicles, which have lower emissions; and have implemented sustainable supply chain practices to reduce their environmental impact. These companies as well as their complementary energy sector counterparts Enel, Ørsted and NextEra Energy have all reported strong financial performance and growth; due to their focus on renewable energy and sustainability (Jewkies & Binnie, 2021).

The technology industry has also embraced ESG practices. Tech companies have made commitments to reduce their carbon footprint; and invest in renewable energy. They have also implemented diversity and inclusion initiatives to promote more inclusive workplace; and address issues of inequality. Industry giants like Microsoft, Salesforce and Google have demonstrated focus and commitment towards sustainability and social responsibility (Ma. et. al, 2023). In view of the foregoing, all these industry players reported improved financial performance and growth.

Due to their focus on sustainability and social responsibility, consumer goods companies such as Patagonia, Unilever and Nestlé recorded and reported improved financial performance (Kim, 2022). Overall, while the

level of ESG integration may vary across different industries, there is growing recognition of the importance of ESG factors in driving long-term financial performance; and mitigating risks. These examples amply demonstrate that ESG integration could bring significant financial profitability benefits to a wide range of industries. As the banking industry continues to adopt ESG practices, it could learn from the experiences of these other industries and sectors; and collaborate to create more sustainable future for all.

Role of Banks as Investment Advisors

Banks are well-positioned in the business ecosystem to play a vital role as ESG investment advisors, helping their clients to incorporate ESG factors into their investment decision-making. By providing expert advice and analysis on ESG risks and opportunities, banks could assist their clients in making informed investment decisions that align with their sustainability goals and values. Further, banks could help clients to identify and evaluate ESG investment opportunities. By offering a range of sustainable investment options, banks could help to meet the growing demand for ESG investments among investors. Moreover, as trusted financial institutions, banks could use their influence to encourage companies to improve their ESG performance. By engaging with companies on ESG issues; and promoting best practices, banks become well-placed to help drive positive change; and contribute to the transition of more sustainable and inclusive economy.

Integration Challenges and Risks

Integrating ESG considerations into business operations present several challenges; and more so, for highly technical and regulated discipline like banking. Practitioners are wary of the lack of standardised ESG data, which makes it difficult for banks to compare; and evaluate the ESG performance of different companies. Additionally, ESG factors could be qualitative, subjective; and difficult to measure, making it challenging to develop reliable ESG metrics.

Another challenge is, ESG rewards are typically long-term. Therefore, banks with myopic stakeholders and short-term-oriented strategies might be limited in their considerations. In some cases, investing in companies with strong ESG performance may result in lower financial returns compared to investments in companies with weaker ESG performance. This could pose a challenge for banks seeking to balance their short-term financial obligations with their ESG objectives.

Moreover, with the Sustainable Banking Principles entering its main implementation phase, banks would be faced with regulatory compliance risks in their integration process. The Bank of Ghana expects all universal banks to comply with the requirements under all seven principles as well as adopt necessary strategies to engage with the key targeted sectors. Banks are also expected to disclose how they integrate ESG factors into their investment decisions; and how they assess their impact.

The possibility of greenwashing resulting from ineffective implementation exposes banks to severe reputational risks if they invest in companies with poor ESG performance. Such

"Banks are well-positioned in the business ecosystem to play a vital role as ESG investment advisors, helping their clients to incorporate ESG factors into their investment decision-making."

risks could potentially damage customer and investor trust in the business. Inadequate ESG expertise within banks could further weaken the effectiveness of their implementations, in terms of decision-making and communication.

To mitigate these risks, banks must invest in developing their ESG expertise, implementing robust ESG data analysis tools; and ensuring effective communication and reporting of their ESG performance. Those that could achieve this have the chance to enter markets worth many trillions of dollars, including clean energy, regenerative agriculture; and sustainable water management.

Conclusion

There is an irreversible shift towards ESG in global marketplaces; and no industry would be immune from it. We have the chance to change the direction in which the world is going as business leaders, but we must be able to accomplish its objectives for effective integration.

Compared to other industries, the banking industry has been relatively slow to adopt ESG integration, due in part to the complexity; and opacity of banking operations. In addition, banks face unique challenges, such as the need to balance the commercial interests of shareholders with the social and environmental interests of stakeholders. However, there has been growing recognition of the importance of ESG factors in banking, driven in part by regulatory pressures; and stakeholder demand. This article reviewed the relationship between ESG integrations and profitable returns with specific focus on the banking industry, analysing the challenges; and profitable ways that banks could implement the sustainability framework to assure good returns.

The good news is, ESG has untapped value worth trillions of dollars; all the companies need is a fresh blueprint; one that could mitigate its peculiar challenges; and make it possible for its impacts to be quantified and valued.

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Attention to the Real Economy - Sectors that Hold Opportunities for Growth

Melody Asare Amoah

What is the Real Economy?

The real economy focuses on the production, purchase, flow and consumption of goods and services in an actual economy, compared to the financial economy that deals solely in transactions of money; and other financial assets. Sub-sectors that make up the real economy include manufacturing, construction, agriculture, transportation, healthcare, education and retail, etc.

In contrast, institutions that make up the financial economy include banks, insurance and pension houses, securities and stock exchanges, and so forth. Some real sectors that contribute the most to Gross Domestic Product (GDP) in Ghana include:

Table 1: Contribution of Selected Real Sectors to GDP

Sub-sector	Contribution to GDP (2021) approx.	Average GDP Growth for the past 5 years
Crops	15.97%	7.16%
Mining & Quarrying	12.42%	9.08%
Manufacturing	11.97%	5.92%
Trade	9.59%	3.54%
Construction	7.77%	2.12%
Transport and Storage	5.66%	5.06%
Information and Communication	4.77%	23.68%
Total	62.49%	8.08%

Beginning of Banks' Overexposure to Government

Commercial banks remain the backbone of the Ghanaian economy as they stimulate growth by extending loans to prospective borrowers; and receiving deposits from customers (financial intermediation). However, some systemic shocks in 2016 altered this dynamic for commercial banks in the country.

As a result of weak credit risk management practices coupled with elevated competition in the banking industry, banks began to approve loans to customers without adequate assessments of their risk profiles; and without accurate understanding of their business models. A telling instance was with the banks' unusual lending to Bulk Distribution Companies (BDCs) and state-owned enterprises (SOEs) in the energy sector; oblivious of the heavy dependence of these institutions on the Government; and having unwavering confidence in the Government's capacity to honour its debts.

When it was time for the government to settle its indebtedness to the BDCs, it defaulted on some payments. This contributed to a period of elevated non-performing loans (NPLs) from 2016, which later saw the monthly NPL ratio peak to a record 23.45% in 2018. As a result, banks sought avenues to raise revenue at the lowest risk possible; hence, their consequent decision to increase their holdings in investment securities.

However, at the end of December 2016, 99.22% of investment securities in Ghana were made up of Government and Government-related bills and bonds. Thus, inevitably, acquisition of investment securities implied acquisition of Government debt securities. This began the period of high exposure of banks to the Government of Ghana.

Additionally, when the Government finally decided to settle the BDCs' debts to the banks, they took a haircut of about 30% on the debt; and settled 55% of the remaining exposure with the BoG and Energy Sector Levy Act (ESLA) bonds; and this further escalated the concentration of banks' exposure to the Government. The table below illustrates the level of exposure of the top-five (5) banks:

> **"The Russia-Ukraine war in February 2022 further compounded Ghana's woes."**

Table 2: Level of Exposure of the Top-Five Banks

Type	Category	Average for Banking Industry (2021)
Investments	% Of Assets in Government Securities	46.24%*
Revenue Sources	% Of Interest Income from Government Securities	58.08%
	% Of Non-interest Income from Trading of Bonds	33.85%

***Industry Average**

The available data in Table 2 affirm banks hold 46.24% of their assets in Government securities; with 58.08% of their interest revenue and 33.85% of non-interest income from these same securities. This implied the whole essence or operations of banks were hinged on the success of the Government. With this degree of concentration risk, resulting from the banks' overreliance on the Government as their main source of revenue, they became vulnerable to the Government.

Post COVID-19 Macroeconomic Challenges

Despite having achieved significant successes in the past, including being the fastest-growing economy in Sub-Saharan Africa in 2019, according to the IMF; being recognised as the best West African country to invest in by Rand Merchant Bank in 2021; and successfully issuing Eurobonds that were oversubscribed for four consecutive years (2018-2021), the Ghanaian economy has recently encountered challenging times.

The difficulties were largely triggered by the outbreak of the COVID-19 pandemic with its attendant lockdowns; and global supply chain disruptions in 2020. The direct impact of this on the economy was evidently adverse. To counter the pandemic's negative impact, the Government increased its expenditure by 42.07% in 2020 compared to the expenditure during 2019. Revenue, however, only grew by 3.28% from the previous year.

The revenue growth thus, was not enough to match the rising expenditure; the slowdown in tax collections was attributed to the decline in economic activity. These contributed to wider budget deficits (11.7%); and increased Government borrowing. The Russia-Ukraine war from February 2022 further compounded Ghana's woes; and thrust the economy into a phase of significant inflation levels propelled by high freight charges, rising crude oil prices, etc.; rapid depreciation of the Ghana Cedi driven by rising balance of payment (BoP) deficit; and series of credit rating downgrades.

IMF & Ghana's Domestic Debt Exchange Programme (DDEP)

In an attempt to restore macroeconomic stability and debt sustainability, the Government approached the IMF in July 2022; and sought a three-year Extended Credit Facility (ECF) of USD3billion. Conditions precedent to the approval of the facility included the Government taking actions to bring its debt to a sustainable level as proof of its capacity to repay the IMF debt when due.

The Government then introduced

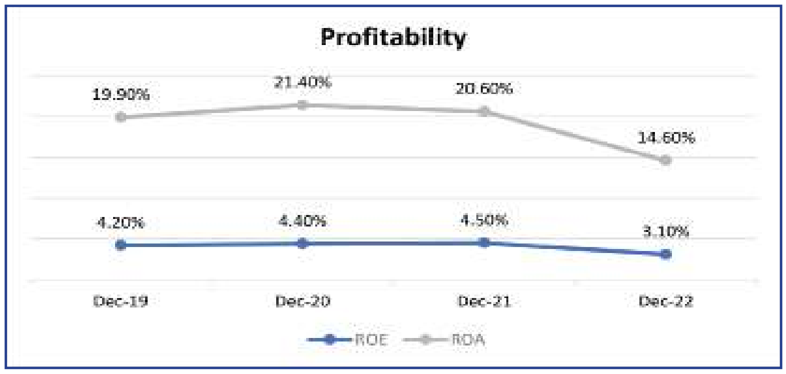
the Ghana Domestic Debt Exchange Programme (DDEP) in its quest to meet this condition. The goal of the DDEP was to restructure the maturity profiles; cut coupon payments on all Cedi (GH¢) denominated government bonds; and consequently, reduce the overall cost of debt servicing.

The Programme was finally implemented in February 2023; and has completely altered the landscape of the banking industry as over 46% of commercial banks' total assets were invested in government debt. Direct impact of the Programme on banks has been on:

Liquidity: The Programme resulted in the loss of liquidity from expected bond maturities and coupon payments before 2027. New bonds are also not as liquid as previous bonds because although they are tradeable, the demand for them is low. Moreover, coupons payable before 2027 are in kind and not in cash, further shrinking the liquidity of banks.

Revenue: The new bonds have lower coupon rates, with an effective yield of 10%. This is extremely lower than the previous bonds that had coupon rates as high as 29.85%, for 3-year bond. Profitability: The DDEP brought about high expected credit losses (ECL) which impacted on profitability of institutions in the banking industry. Banks would therefore need to find alternative income avenues; and build robust capital to accommodate the effects of losses incurred from holding significant amounts of government instruments on their books.

Figure 1: Profitability Curve

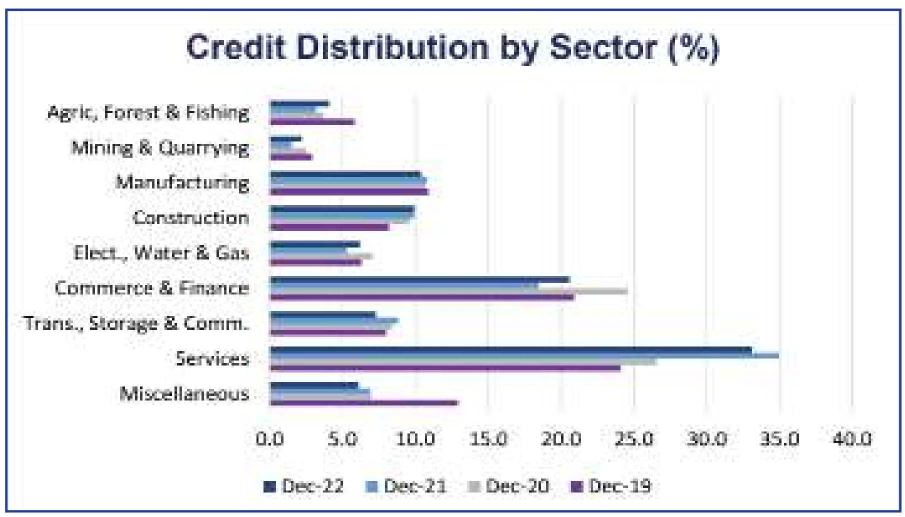


Source: BoG

Capital Adequacy: Capital of the banks has been consequently affected by high ECL; and fair value losses.

Sectorial Analysis

Considering the negative impact of the banks' overexposure to the Government, it has become necessary for banks to diversify their portfolio by increasing their investment in the real sector. To guide our search for prospective real sectors for investment, we analysed the industries' sectoral credit distribution; and NPL ratios over the years.



Source: BoG

S/N	Item	2016	2017	2018	2019	2020	2021	2022e	2023	2024	2025	2026
1	Overall Real GDP Growth	3.4	8.1	6.2	6.5	0.5	5.4	3.5	2.8	3.9	4.9	5.6
2	Non-Oil GDP Growth	4.5	4.6	8.2	5.8	1.0	6.9	3.6	3.0	3.1	4.7	5.4
3	Agriculture Sector	2.7	6.2	4.9	4.7	7.3	8.4	0.7	2.6	2.8	4.7	6.1
4	Industry Sector	4.3	15.6	10.5	6.4	-2.5	-0.8	6	3.9	6.1	5.1	6
5	Services Sector	2.8	3.4	2.8	7.6	0.7	9.4	2.9	1.7	2.4	4.8	5.0

Source: MoFEP

Generally, economic growth is expected to slow this year as the Government and IMF, both projected the economy to grow by 2.8%. However, the IMF revised its projection down to 1.6% after its April review. Barring the slow growth in 2020 caused by the pandemic, this growth rate of 1.6% would be the lowest for the country in 40 years. Correspondingly, individual sectors are not expected to achieve exceptional growth this year.

The Agriculture sector

is a defensive sector due to fact that demand for most of the goods produced in this sector is inelastic; hence, the sector has not contracted since 2007. Additional reason for the limited contraction of the sector is the availability of numerous untapped opportunities, necessitating substantial investments to fully be exploited. The main growth driver in this sector is Crops (including Cocoa).

The sector grew by 4.7% in Q3'22. Opportunities exist for investment in agribusinesses that have track record of profitability; and sustainable growth, particularly in areas where mechanisation, irrigation and value addition/agro processing are present. However, the sector is not attractive for lending due to its susceptibility to significant volatility in crop yields and commodity prices; and to factors such as climate change, pests and diseases; and market fluctuations, which have little or no mitigations. Also, given that Agriculture receives very low share of the industry's credit; and has the second highest NPL ratio (24.3%) in the industry, it remains one of the least attractive sectors for lending.

Currently, the banking industry has extended about 67.6% of its total credits to the Services sector (Transportation; Storage & Comm.; Commerce & Finance; Electricity; Water & Gas; and other services sub-sectors). Though the services sector holds majority of the banking industry's credit, it records the lowest NPL ratios of the three main sectors. The services sector is however, generally a procyclical sector; and given that economic growth is expected to slow in 2023, huge opportunities do not exist in the sector, apart from the Information and Communication sub-sector. The main sub-sectors in the Industry sector are Mining and Quarrying (incuding Oil & Gas), Manufacturing, Electricity, Water and Sewerage; and Construction. With the exception of Mining and Quarrying, all these sub-sectors contracted in Q3'22. The Electricity and Water and Sewerage sub-sectors are dominated by quasi-government agencies. Hence, in a bid to reduce the exposure of banks to the government, huge investment should not be made in these sub-sectors.

Growth in the Construction sub-sector is projected to slow significantly in 2023 and 2024, according to the Government's budget because majority of the construction in Ghana is driven by Government projects. However, Government reduced CAPEX (% to GDP) from the expected 3.9% in 2022 to 3.5% in 2023. Also, banks are weary of going into the Construction space because it holds the highest NPL ratio in the industry (29.1%). This leaves the Mining and Quarrying; and Manufacturing sub-sectors as possessing opportunities for growth.

PESTLE Analysis on Promising Sub-sectors

This analysis presents risks and opportunities for banks considering diversification into the real sector.

	Crops & Cocoa
Political	The Government is putting in measures by promoting export in the sector. Priority products for the Government include cocoa derivatives, cassava value chain products, fruits and vegetables. The supply base expansion initiative of GEPA for products such as coconut, pineapples, cashew and shea derivatives will be continued. Initiatives like planting for food and jobs have given the industry a boost. Government will continue with the construction of roads as part of its commitment to improve access to roads in cocoa growing communities.
Economic	Cocoa is the main driver for this sub-sector. The sub-sector is expected to grow at 2.8% in 2023. Cocoa was projected to grow at 4%. The sector is expected to grow at a higher pace than it did last year; with annual production of 750,000 tonnes for 2022/23 compared to 689,000 tonnes for 2021/22. It is affected by market volatility.
Social	News of child labour on farms might affect the market for Ghana's cocoa as international market is concerned about sustainability.
Technology	The agriculture sector is still not well-mechanised. Technology is required for irrigation, harvesting and storage facilities. The use of technology in cocoa farming, such as GPS mapping and mobile apps, has increased efficiency and productivity. However, the cost of technology could be a barrier for small-scale farmers.
Legal	COCOBOD regulates the sub-sector and enforces laws related to quality control and pricing. International organisations like ICCO have also set standards for ethical and sustainable cocoa production; and Ghana has committed to meeting them.
Environmental	Negative environmental factors like swollen shoot virus/disease; and bad weather usually affect production. Combined effect of illegal mining, timber logging and loss of cocoa trees affect production. Bumper harvest. The Ghanaian Government has implemented policies to promote sustainable cocoa production, such as the Cocoa Forest REDD+ Programme, which aims to reduce emissions from deforestation; and forest degradation in the cocoa sub-sector.

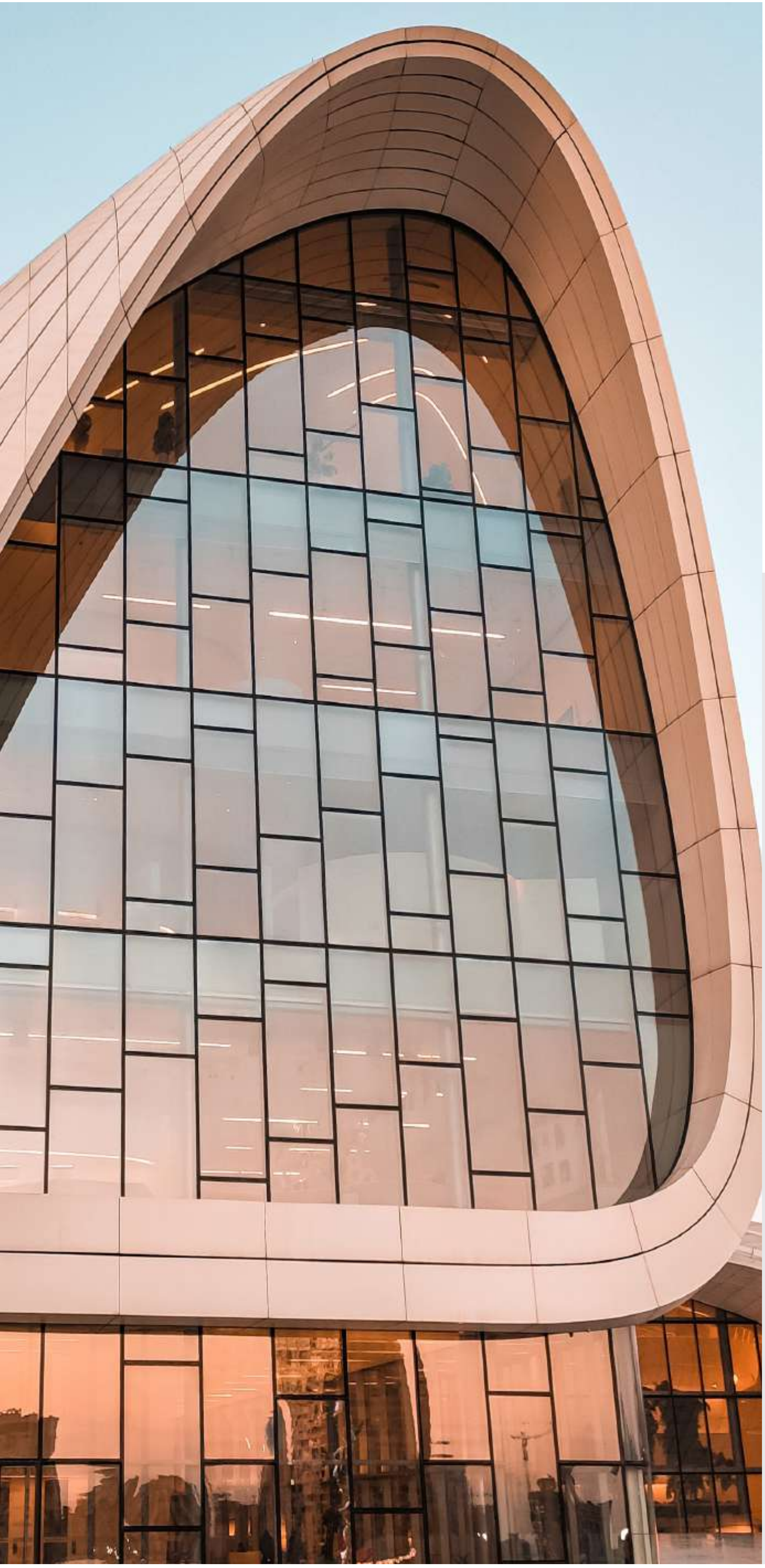
	Information & Communication
Political	The Government has demonstrated its commitment to developing the sub-sector through various policies such as the National Digital Transformation Agenda (2020-2024), which was backed by the World Bank's grant of USD200 million; and emergence of the Ghana Card.
Economic	The sub-sector began experiencing astronomical growth in 2018; and has remained the fastest growing sub-sector to date. This was driven by increased internet penetration and mobile phone usage since 2018; and further propelled by the COVID-19 pandemic. Although projected growth for 2023 has slowed to 4%, it remains the highest growing sub-sector. There are opportunities for investment in areas such as e-commerce, Fintech and software development.
Social	Ghana has young and growing population, with 60.4% of the population in the working bracket. This presents opportunities for the information and communication sub-sector to tap into large and growing market. The country has high rate of mobile phone penetration, with over 41 million mobile phone connections and 15.7 million internet users in 2021. This creates opportunities for the development of mobile applications and services. However, the sub-sector may face social challenges such as low levels of digital literacy; and limited access to technology in some rural areas.
Technology	Growing demand for cloud computing, data analytics and artificial intelligence, presents opportunities for the sub-sector to develop new products and services. The sub-sector may face technological challenges such as the digital divide, cybersecurity threats and shortage of skilled professionals to meet the growing demand for technology services.
Legal	The government has enacted policies and regulations such as the Data Protection Act; and the Electronic Transactions Act to promote the sub-sector. Legal challenges such as intellectual property protection and regulatory compliance could impact the sub-sector's growth.
Environmental	The information and communication sub-sector in Ghana has relatively low environmental impact.

	Mining & Quarrying (including Oil &Gas)
Political	Government policies that support mining as key sub-sector of the economy. Government interventions to support local content; and employment in the mining sub-sector. Government's *Gold for Oil programme* is expected to boost the sub-sector.
Economic	The sub-sector, although expected to shrink by 12.1%, grew by 14.9% in Q3'22. A growth of 8.7% is however, expected in 2023. Rising global demand for minerals and metals since 2020. The rise in the demand for gold in 2022 was driven by central banks. Current economic uncertainties might lead to increasing commodity prices which could have positive impact on the sub-sector. High cost of exploration and production; hence, an opportunity to invest.
Social	The sub-sector promotes job creation and infrastructure investments. Concerns over the displacement of communities and environmental degradation caused by mining activities, sometimes lead to tensions between mining companies and local communities. Concerns over the health and safety of mining workers; and the impact of mining on human rights.
Technology	Technological advancements can improve mining efficiency; and reduce environmental impacts. However, it would require significant capital investments and skilled labour, which could be a challenge for local companies.
Legal	Existence of environmental protection laws; and laws governing licensing and royalties.
	Competitive rates of royalty and corporate income tax; and concessionary rates and exemption on some imported mining inputs. Ghana has legal framework that regulates mining activities; and promotes responsible mining practices; and social responsibility. Compliance with regulations could increase operational costs; and affect profitability. Hence, the emergence of illegal mining (galamsey).
Environmental	Mining and quarrying activities could have significant environmental impacts, including deforestation, soil degradation and water pollution. Ghana's environmental laws require mining companies to implement environmental management plans and practices. Government policies and initiatives to promote environmental sustainability in the mining sector, such as reforestation programmes; and use of renewable energy sources.

	Manufacturing
Political	This sub-sector is key to Government's industrialisation agenda. There are opportunities for investment in areas such as agro-processing, textiles and garments, pharmaceuticals, etc. Government's flagship programmes to boost the manufacturing sub-sector include the One District One Factory (1D1F) initiative; and National Industrial Revitalisation Programme (NIRP). These policies are aimed at promoting industrialisation; and increasing local production. The new Components Manufacturing Policy which seeks to support the production and supply of components; and spare parts for the automotive industry would be launched; and implementation would commence this year, according to MoF. The few import substitution measures such as high tariffs on imported goods are in place to protect the sub-sector.
Economic	The manufacturing industry is expected to grow at 2.2% in 2023. Introduction of AfCFTA would expand market base for the sub-sector. Rising global inflation, high-interest rates and volatile currency could pose challenges for manufacturers, particularly those that rely on imported raw materials.
Social	Ghana's increasing population presents an opportunity for manufacturers to tap into a growing domestic market. Social challenges such as high levels of poverty, inequality and youth unemployment, however, still exist. These factors could impact consumer demand for manufactured goods.
Technology	Ghana is investing in improving its technological infrastructure, particularly in the areas of telecommunications and renewable energy. This could benefit manufacturers by improving access to information; and reducing energy costs. The sub-sector faces challenges in terms of access to technology; and the skills needed to adopt new technologies. This could limit the ability of manufacturers to compete globally.
Legal	Laws such as the Ghana Investment Promotion Centre Act help to promote, attract and retain investments in the sub-sector.
Environmental	The industry needs to implement sustainable practices to minimise its environmental impact; and meet the growing demand for environmentally friendly products. Ghana is seeking to address environmental challenges such as deforestation and pollution. This could impact the manufacturing sub-sector, particularly those that have high carbon footprint; or rely on natural resources.

As illustrated above, it is advisable for banks to dilute their concentrated exposures to the Government by investing in real sectors that have opportunities for growth; and would boost their revenues. For instance, banks could consider offering their own forward products to importers and exporters; and businesses that regularly receive foreign direct investments (FDIs); this initiative could enable banks to increase their fees from trade finance products provided to importers; as well as diversify their source of FX, in the case of exporters.
In pursuing investment diversification, banks ought to proactively engage with clients, identify their needs; and offer bespoke products and services accordingly. In order to do this, banks must improve their risk management processes to make them robust. Credit risk management would need to go beyond the generic analysis of customers' financials; and banks would need to build the capacity of their credit risk management personnel to ensure sector specialisation i.e., sectorial experts must be utilised in the credit analysis process.

Finally, it is worth noting that, the private sector rides on the enabling environment provided by the Government; hence, it is almost impossible for a sector in Ghana to grow in isolation of the Government. Banks thus, would always be indirectly reliant on the Government to an extent. It is advisable for banks that want to lend to the Government; and quasi-government institutions to



have institutional intermediaries; or extend these loans through on-lending facilities; and consequently, lessen the degree of exposure to the Government.

Conclusion

It is important to note the above opportunities are based on available data; and may be subject to change, based on various factors such as conditions from the IMF; and change in the current economic and political circumstances. It is, therefore, prudent to conduct further research; and due diligence before making any investment decisions.

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Promoting Financial Stability:

Role of Stress Testing

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Capital Management: A Banking Conundrum

The financial sector continues to play a crucial role in bolstering economies around the world, serving as key source of financial capital necessary to propel economic activity. Banking is arguably the most regulated player in the financial sector because of its critical intermediary role in mobilising deposits from households, businesses and government agencies; and lending to other economic agents in need of capital.

To safeguard confidence in the banking sector, central banks ensure banks are adequately capitalised to cushion them against unlikely; and unexpected events that may have the potential to erode the deposits held by banks. In turn, these events directly impact private-sector savings and confidence; and ultimately have repercussions that could derail an entire economy. The stability of financial institutions is therefore a matter of priority. Over the years, bank regulators, supervisors and other key stakeholders have provided various elements of regulation, directives and guidelines to promote sound capital and risk management practices.

Evolution of Stress Testing: Key Crisis Events and Regulatory Responses

Stress testing involves simulating a range of severe and plausible scenarios to assess the impact of adverse events on key elements of a bank, such as its capital position. It measures the adequacy of banks' capital levels to support operations; and absorb losses in times of stress. The 2008 global financial crisis serves as reference point for the evolution of banking regulations since it exposed the inherent weaknesses of the financial systems.

Stress testing is one of the key practices that became prominent in the wake of the crisis, with an overarching objective to help financial institutions proactively assess the impact of unexpected risks they are likely to face. Stress testing, prior to the crisis, was largely emergent and small scale; and mainly conducted informally in certain banks. Although the first Basel Accord introduced stress testing in assessing risk in trading portfolios, stress testing was reemphasised prominently in the Basel II framework, Pillar 1.

The framework requires banks using advanced approaches to credit; and market risk capital computation to incorporate stress testing into their internal capital assessments; while Pillar 2 requires bank supervisors to review stress tests conducted as part of banks' Internal Capital Adequacy Assessment Process (ICAAP); as well as in their Internal Liquidity Adequacy Assessment Process (ILAAP).

The 2008 global financial crisis was significant event in the history of the financial sector, with far-reaching consequences for banks and financial institutions around the world. Although the impact of the crisis was felt globally, the United States (US) financial system was clearly at the epicentre with several large US banks receiving some form of bail out in response to the resulting liquidity and solvency challenges.

In response, financial regulators and supervisory bodies implemented a range of regulatory reforms; and revised guidelines to address the key risk management deficiencies observed in the wake of the crisis. Some of these regulations and guidelines include the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank in short), which was designed to restructure financial sector regulation in the US; and the introduction of Basel III Accord, which revised existing credit, market, counterparty and operational risk frameworks. Additional provisions were introduced to strengthen banking institutions and supervision in general.

A key aspect of the post-crisis regulatory reform was an emphasis on stress testing as supervisory tool in risk management; and in assessing capital adequacy. Although stress test programmes are implemented differently in various jurisdictions, key themes could be drawn from their execution. Stress test exercises that emerged post-crisis include the Dodd-Frank Annual Stress Test (DFAST) and Comprehensive Capital Assessment Review (CCAR) conducted in the US; and stress tests conducted by the European Banking Authority (EBA) on key European banks in response to both the 2008 Financial Crisis and the 2009 European Debt Crisis. The importance of stress tests as means of assessing capital sufficiency has been further accentuated by the recent failures of Silicon Valley Bank (SVB) and Signature Bank.

The collapse of SVB early this year (2023) arguably reiterated the failure to conduct robust stress tests to provide the early warning signs around the use of short-term deposits to purchase long-term US treasury bonds. The long-term bond purchases caused an asset-liability mismatch, which presented risks the bank failed to appropriately assess; the perceived comfort of holding theoretically risk-free US treasury instruments may have contributed to the bank's less rigorous risk assessment process. This skewed approach to assessing risks inherent on the bank's balance sheet culminated in the materialisation of interest rate risks, as interest rates trended higher.

In Ghana, apart from the 2008 financial crisis, recent shocks from the COVID-19 pandemic; and the 2022 Ukraine War posed unique challenges for banks. Although banks emerged largely resilient from the dampened economic activity experienced during COVID-19, the economic fallout experienced following the Ukraine War presented more dire effects for economic agents, including banks.

Although the global economy experienced inflationary pressures following the war, the local economy was more severely hit with hyperinflation, rapidly depreciating Ghana Cedi and further growth in the already high debt-to-GDP ratio. To salvage the situation and restore investor confidence, the Government of Ghana sought an IMF bailout; the Domestic Debt Exchange Programme (DDEP) emerged as means of restructuring Government debt by extending the repayment period for affected bonds; and revising interest rates on these bonds downward.

With banks holding about 30% of Government debt; and with Government instruments on average constituting an average of 30 - 40% of banks' assets, banks were severely hit by the

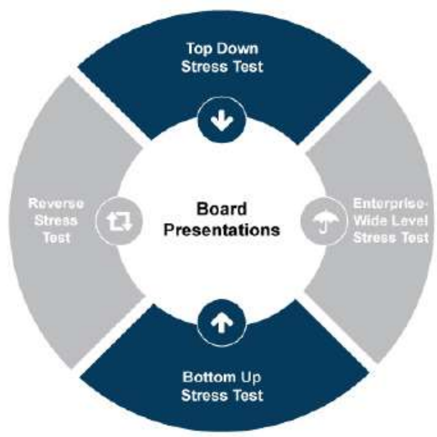
DDEP. This series of events therefore reinforces the critical importance of rigorous stress testing as essential risk management tool; and explains its heightened adoption by regulators, globally.

The Regulatory Landscape of Stress Testing in Ghana

Bank of Ghana (BoG) has adopted these global regulations and in line with them, issued the Capital Requirement Directive (CRD); and the Risk Management Directive (RMD). The RMD outlines key risk management framework requirements to strengthen existing risk practices; and could be viewed as an effort to satisfy the provisions of Basel's Pillar 2 supervisory review process. The RMD requires banks to have an ICAAP framework; and to conduct forward looking stress tests. Considering that the RMD was issued recently, efforts by banks to meet its requirements are still in early stages; and not matured.

The work of financial regulators across the globe continues to evolve in response to the weaknesses that have been made evident by various historical events. However, compared to the post-financial crisis efforts by regulators in developed countries, stress test efforts among banks in Ghana have been siloed; and have not been driven by specific policy directives from BoG.

Although the recently issued RMD makes provision for the conduct of stress tests, there is no clear-cut framework around the nature of stress scenarios; frequency of stress test exercises; requirements around stress test governance; nature of data to be used and its quality; and nature of tests to be conducted.



Given that Ghana's economy remains susceptible to external shocks, such as changes in commodity prices; or fluctuations in global financial markets, stress testing helps to identify the potential impact of such shocks on the financial system; and ensures banks have adequate capital buffers to absorb potential losses. As the ratio of Non-Performing Loans (NPLs) to total loans issued in the Ghanaian banking industry remains high, closer monitoring of credit risk with the use of stress testing tools would help assess the potential impact of further increase in NPLs on Ghana's banking industry.

Key Factors for Effective Stress Test Framework

Stress testing frameworks have become more sophisticated and comprehensive, with increased focus on macroeconomic and systemic risks. Over the years, they have informed the development of capital requirements by providing regulators with better understanding of the risks faced by banks; and the appropriate level of capital required to manage systemic risks.

In response to the crisis, global banking regulations (including the Basel Accords, by the Basel Committee on Banking Supervision (BCBS)) have evolved to reflect the changing nature of the banking industry; and the emerging risks and challenges it faces.

An integral part of this process is deepening and strengthening stress test practices; and the supervisor's role in implementing these practices in managing risk. It is therefore important that key stakeholders develop; and implement effective stress tests that are guided by leading practices. We examine few elements of an effective stress test framework below:

- An appropriate governance structure should be implemented with clearly written policies and procedures. Stress tests should be driven by an organisation's Board and Management, who should assign appropriate responsibilities around conducting stress tests; and actioning stress test outcomes. Typically, the Risk Management Function should be responsible for conducting stress tests; and reporting the results.

- Stress test frameworks should enhance risk identification and control; provide complementary risk perspectives to other risk management tools; as well as improve capital and liquidity management.

- Stress tests models should be robust enough and driven by sound methodologies. Models should capture key economic and industry-related risk drivers relevant to banks; and be able to establish relevant linkages to the operating model of banks to ensure risk impact is appropriately captured on relevant balance sheet items, primarily, capital. Advancements in data analytics have afforded the leveraging of advanced analytics and machine learning techniques to analyse large amounts of data; to simulate the impact of complex scenarios to unearth insights that were not possible few years ago.

- Scenario selection should be designed to capture plausibly extreme market events; and firm-wide level risks. Scenarios should be fine-tuned with expert judgement to capture forward looking expectations on current and emerging risks. The scenarios should also be built around all relevant risk areas to provide comprehensive results.

- Data Integrity is key. The "garbage-in garbage-out" concept is applicable where inaccurate or inadequate data may yield flawed or inappropriate results. Having robust state-of-the-art model is therefore, not enough.

- Stress tests results should be actioned. Management and the Board have role to play in reviewing the stress test results; and in ensuring appropriate actions are monitored and fully implemented to address findings.

- In essence, documentation, oversight and monitoring are critical activities in ensuring the effectiveness of a stress testing framework; otherwise, all we have is a toothless bulldog.

Key Lessons for Consideration

The usefulness and versatility of stress testing cannot be overemphasised. Risk management is at the core of banking; and can be enhanced using stress testing in the following ways:

- Providing forward-looking assessments of key risks.
- Informing the setting of a bank's risk tolerance.
- Exploring portfolio vulnerabilities by assessing borrower interdependence.
- Enabling stabilisation of asset quality and preventing further deterioration in credit.
- Realigning bank's product and investment strategy to changes in the local; and global market dynamics.
- Enabling the development of contingency plans to ensure funding stability.
- Preventing liquidity drain and any contagion effects.
- Assessing interest rate risk on a bank's balance sheet.

Stress testing has become more comprehensive and structured with increased focus on the impact of macroeconomic; and systemic shocks on the stability of banks and the financial system. Also, there has been increase in supervisory-driven stress tests that have provided standardised stress testing methodologies; and informed the assessment of capital adequacy, based on the insights developed on the bank-wide; and idiosyncratic risks inherent in the banking industry.

Stress testing is therefore, at the heart of efforts to ensure risk events that may potentially be overlooked in conventional risk assessment processes are incorporated to strengthen the risk management process. This serves to ultimately improve financial stability; and sustain confidence in the banking industry. In concluding, we outline below the key takeaways from the discussed events; and how stress testing has evolved over time.

- Crisis events seem to be occurring more frequently; this emphasises the need for banks to embed periodic stress testsinto their risk management processes.
- Stress tests are more effective when backed by regulatory involvement that sets minimum expectations around how an effective stress test programme should look.
- Historical events may not lend all the information needed for stress test scenarios. Careful research and understanding of emerging risks are essentially to generate scenarios that incorporate forward-looking risks.
- Document what is practiced; and practice what is documented: Having stress test policy that is not used; or conducting stress tests without clearly documented methodology leaves room for lapses.
- As with all modelling processes that require data: garbage in, garbage out.

"The usefulness and versatility of stress testing cannot be overemphasised. Risk management is at the core of banking; and can be enhanced using stress testing."

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DEBT RESTRUCTURING

Implications of Ghana's Debt Restructuring for the Economy

Debt Restructuring in Perspective

Investors are often worried about the risk of sovereign default; they fear a replay of the 2007 – 2008 financial crisis; 2009 – 2011 eurozone debt crisis; 2020 COVID-19 outbreak; and possible return of global recession, among other pertinent risks. Although investors perceive the prospects of sovereign default as scary, many countries have not recorded debt defaults in modern times. Examples include Finland, Malaysia, Mauritius, New Zealand, Norway, Singapore, England, Canada, Denmark and Belgium.

Generally, debt restructuring becomes a desideratum when sovereign default occurs. Debt default relates to a country's inability to honour mutually agreed (debt) obligations when they become due; whereas debt restructuring refers to identified and organised process towards ensuring the country's accumulated debt and repayment schedule are put back on the right trajectory; to facilitate the government's active interaction with investors in both the internal and external financial markets.

Ghana's total debt stock was more than 93% of GDP in 2022; while government revenues expended

on interest payments were in excess of 40% during the period. The amount originally slated for restructuring was estimated at GH¢130 billion, equivalent to US$10.40 billion. However, the government's decision to exclude pension funds from the restructuring implied total debt under consideration was approximately GH¢100 billion, equivalent to US$8 billion. Total sign-up for the exchange from domestic debt holders in early February 2023 was 64%.

Consistent increase in the country's total debt raised concerns about the magnanimity and ingenuity of managers of the economy to ensure sustainability; and possible decline in the immediate-, medium- and long-term. During its recent debt sustainability report, IMF classified the Ghanaian economy as high risk of debt distress, and this necessitated the adoption and implementation of fiscal measures that would assure debt containment, going forward.

Debt restructuring remains one of the tools used by sovereign countries when saddled with acute fiscal and economic stress. The restructuring strategy may be focused on external debt or domestic debt; or both. In essence, both domestic and external debt restructuring could play a crucial role towards the resolution of current and future national debt crises. Further statistics affirmed, average sovereign domestic debt of emerging markets and developing economies over the past two decades has surged from 36% to 46% of total sovereign debt. The foregoing lends credence to conscious efforts of these economies to reduce their respective ratios of external debt-to-total sovereign debt from 64% to 54%.

The decision to restructure sovereign debt issued under domestic law differs from restructuring sovereign external debt. Under the former, a government may elect to modify the terms of debt contracts by changing domestic law without any dire consequences. External debt may be restructured through changing terms of the debt such as repayment period through negotiations with different types of external creditors; or negotiating to alter the outstanding amount due. Although domestic debt restructuring may be easier to accomplish, external debt restructuring has the potential to lead to loss of access to external debt markets.

Debt Sustainability Analysis (DSA) Report

The World Bank Group and International Monetary Fund (IMF) partner low-income economies, including Ghana towards development of regular report on debt sustainability analyses. These analyses are structured towards examinations of debts of developing economies, based on the debt sustainability framework. Both the World Bank and IMF rely on this framework to guide their decisions on borrowings by low-income economies to ensure fair balance in their financing needs; and repayment capabilities, both in the present; and in the future.

Countries that have received debt relief are expected to be on sustainable development track; while allowing creditors to better anticipate future risks; and tailor their financing terms accordingly. Countries seeking relief have the opportunity to analyse their debt sustainability potentials; and to balance their needs for funds with debt repayment capabilities. The International Monetary Fund assessed Ghana's policies to determine their consistency with IMF's debt sustainability principles.

The assessment helped in the determination of whether the Ghanaian economy is saddled with liquidity or debt sustainability crisis. Nonetheless, the International Monetary Fund, through Madam Kristalina Georgieva, the Managing Director, affirmed its commitment towards reaching a deal with Ghana by December 2022. Ghana needed about US$3 billion package from the International Monetary Fund to shore up economic activities.

Ghana's Decision on Debt Restructuring

As a reiteration, rising debt vulnerabilities and growing stock of Ghana's debt triggered concerns for possible debt restructuring as one of the immediate conditionalities for accessing loan from the International Monetary Fund. An effective sovereign debt restructuring system should aim at restoring debt sustainability; while minimising the causative factors for disruption.

Generally, the country was expected to ensure the implementation of rigorous and credible medium-term consolidation plan that would maintain total debt on a declining trajectory; while ensuring continued market access. The International Monetary Fund maintained, restructuring of Ghana's current debt was contingent on the outcome of the World Bank/IMF Debt Sustainability Analysis Report.

IMF indicated, outcomes from the debt sustainability analysis informed which areas of the economy required restructuring. The government eventually focused its attention on both domestic debt and external debt restructuring. Nonetheless, there were spill-over effects on individual investors, institutional investors; households and the economy as a whole.

Brief Historical Facts

Review of existing literature on the phenomenon revealed, as debt crisis looms over low- and middle-income economies, one-in-five people in each country is believed to be teetering towards default. Further, debt crisis is compelling many lower-income countries to make excruciating choices between avoiding defaults; or continue funding hospitals and schools.

Analysts estimated nearly US$400 billion of international market debt could be at the heart of default challenges; whereas the PIIGS countries, namely Portugal, Ireland, Italy, Greece and Spain remain on the watch list of analysts as being the most in the risk of sovereign defaults.

Greece was arguably the first country to default in 377 BC; and has defaulted five (5) times since independence in the 1820s. However, Spain holds the dubious record for defaults, having done so six (6) times in the 1700s; and seven (7) times in the 1800s. However, fortunately, the country has not defaulted since the last one in the 1800s.

After the United States had recovered from the Panic of 1837, 19 of the 26 member states defaulted due to massive investment in infrastructure projects (canal-building boom); and race to raise capital to establish new banks. Portugal has defaulted four times on its external debt obligations, with the last occurrence in the early 1890s.

Latin America leads sovereign defaults. Brazil, one of the fastest growing of the world's emerging economies has defaulted nine (9) times; Uruguay and Costa Rica have disappointed foreign investors (through defaults) nine times; Venezuela has defaulted eleven (11) times; while Ecuador has defaulted ten (10) times in modern history.

At least seven sovereign defaults were recorded during 2022: Mali (Caa2 stable), Russia (rating withdrawn, ostensibly due to the war with Ukraine), Sri Lanka (Ca stable), Belarus (Ca negative), El Salvador (Caa3 stable), Ukraine (Ca stable) and Ghana (Ca stable).

The number of defaults in 2022 remained the highest since 1983. Nearly 5% increase in annual sovereign bond default rate was recorded in 2022, which was more than five times the average default rate between 1983 and 2022.

Two countries have already defaulted in 2023. These include Mozambique (Caa2 positive) and Argentina (Ca stable). It is worth emphasising that in some cases, sovereign defaults are economically or politically driven; and not necessarily due to lack of financial resources.

Debt Restructuring Effects

Government's decision to commit to debt restructuring had multiple effects on the financial sector and broader economy.

Effects on the Financial Sector

Some practical effects of the recent domestic debt restructuring on key institutions and actors within the financial sector are presented below.

- Most banks in the country had high exposure to government debts; the latter constituted significant component of banks' assets (banks held nearly 32% of the government's debt). Thus, government's decision to restructure its sovereign domestic debt had dire implications for the sector's overall financial performance. The balance sheets for most banks in the industry were destabilised; shareholders' funds for the industry decreased from over GH¢26 billion during 2021 to a little over GH¢20 billion in 2022. The restructuring initiative implied cutting down government's debts to banks and other financial sector institutions.

- Key performance indicators (KPIs), including capital adequacy ratio (CAR) of banks were strongly impacted by the sovereign domestic debt restructuring. The capital adequacy ratio serves multiple purposes: it helps in determination of solvency of banks; and helps in the measurement of banks' ability to absorb potential losses emanating from bad loans. Thus, the analytical "prowess" of many banks was weakened when CAR was severely impacted by the domestic debt exchange programme.

- Domestic creditors including banks suffered significant losses since they predominated domestic debt holdings (nearly 32% for banks alone; and 42.1% for banks, insurance companies and pension funds (World Bank, 2023)). Sovereign debt distress easily cascaded through this medium to banks, pension funds, households; and other parts of the local economy. Significant impairment losses (over GH¢19.23 billion) were recorded by the banking industry in 2022 comparative to 2021 (about GH¢1.43 billion).

- The decision to apply haircut to the sovereign domestic debt impacted severely on operations of institutions in the banking industry; banks were threatened with solvency issues and protracted liquidity challenges. The banking industry's Loss-after-tax in 2022 amounted to GH¢6.02 billion; this did not compare favourably to the profit-after-tax derived in 2021 (nearly GH¢4.99 billion).

- The financial system and its related stability were severely roiled due to concentration of the restructuring on sovereign domestic debt. Available statistics on the banking industry revealed Provision for bad debts increased from GH¢715 million during 2021 to nearly GH¢1.03 billion in 2022, representing 44.06% surge during the period.

- Evidence suggests the trickle-down effect added to (rather than subtracted from) the economic challenges that necessitated government's consideration for debt restructuring.

Impact on the Broader Economy

Indeed, adverse effects of the Government of Ghana's decision to embark on debt restructuring transcended the financial sector to include the larger economy. Some of the severe impacts on the economy are outlined below.

- The country's international credit ratings were severely impacted; while the consistency in attraction to foreign direct investments (FDIs) was adversely affected. In December 2022, Fitch downgraded Ghana's Long-Term Foreign Currency (LTFC) Issuer Default Rating (IDR) from 'CC' to 'C;' and further downgraded the country's issuer ratings on outstanding foreign-currency debt. Fitch announced a downgrade of the issue rating on Ghana's partially-guaranteed USD1 billion notes maturing in 2023, from 'B-' to 'CC.' Earlier in August 2022, following intensified financing and external pressures, Ghana's foreign and local credit ratings were downgraded by Standard and Poor's (S&P) to "CCC+/C" from "B-/B" with negative outlook.

- There was spike in policy rate and interest rates with cascading effects across the economy – higher food, transportation and energy prices, among others. As part of its routine measures to curb inflation, the Bank of Ghana tightened monetary policy by ensuring "intermittent" hikes in the policy rate from 14.5% in 2021 to 27% in 2022. However, the impact of this economic measure (policy rate hikes) on real prices was quite minimal; Ghana's inflation at the end of December 2022 was 54.1%.

- The country experienced challenges to regaining access to the international financial market in the immediate-term. The downgrades outlined above deepened woes of the country in the domestic and external financial markets; Ghana became unattractive to many individual and institutional investors in both the domestic and external financial markets.

- Investors' confidence in the economy was eroded (even more) by protracted debt negotiations; while capital flight became an option for some investors. Marked-to-market losses for fund managers were very high; it was estimated in excess of US$3.7 billion at the early stages of the debt restructuring.

- Some derived benefits from sovereign debt restructuring include fiscal consolidation and resilience; reduction in the cost of debt; and "renewed" attraction to investors in both the domestic and external financial markets, amongst others. In essence, the country benefitted a great deal from lower cost of debt; as managers of the economy took the necessary steps to renegotiate and restructure the country's total debt. The foregoing reflected in the Government of Ghana's decision not to present supplementary budget

to Parliament during the 2023 Mid-Year Budget presentation.

- Overinvestment might have been aggravated by the significantly large debt restructuring amount (over GH¢100 billion); while government's sovereign power could have had tremendous inhibitory effect on underinvestment during the debt restructuring period.

- The demand for major foreign trading currencies such as the American dollar increased; and this further weakened the local currency (Ghana cedi). The local currency depreciation comparative to the American dollar remained over 52% during some parts of 2022. However, following the reversal of some losses in 2022, average depreciation rate of the Ghana cedi relative to the American dollar in 2022 was estimated at 30%.

Restoring Confidence in the Financial Markets

Over the years, domestic and foreign debt restructuring has been used as a tool by sovereigns saddled with fiscal and economic challenges to restore investor-confidence; and redirect the economy towards the path of recovery and accelerated growth. However, successful implementation is contingent on the effectiveness of the design; and its ability to prevent eventual occurrence of more harm than good. To ensure its effectiveness, domestic and foreign debt restructuring should form an integral part of broader policy package intended to address underlying economic stress and debt vulnerabilities. Indeed, external debt restructuring was inevitable under the economic circumstances of the country.

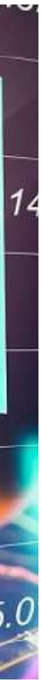
In addition to the foregoing, the following measures are proffered for implementation by the government, banks and other stakeholders to save the banking industry in particular; the financial system and economy in general from possible after-shocks of debt restructuring, especially restructuring of sovereign domestic debt.

- Decisions on domestic debt restructuring always remain the prerogative of the sovereign country. However, the sovereign country has the responsibility to limit potential damages; and work assiduously towards mitigation of the effects of restructuring on the domestic economy. For instance, the government would have to consider measures that would eliminate any compromise on viability of the domestic financial system. These include possible recapitalisation of some banks; need to replenish pension savings; or both, among other immediate and pertinent interventions.

- In order to firm-up any decision on domestic debt restructuring, it is imperative to consider net benefits associated thereof. That is, it is instructive to determine whether or not the benefits associated with lower debt burden are in excess of the fiscal and broader economic costs of realising the targeted debt relief.

- There is the need for early engagement of debtors and creditors to frankly address unsustainable debt situations on a timely basis. This would reduce overall uncertainty; offer framework for creditor consultation; and provide structures for engagement with debtors. Jamaica's debt exchange programme remains a classic example; the Jamaican government's decision to engage debtholders prior to the announcement on debt exchange facilitated the implementation process; the co-operation of debtholders was garnered with relative ease.

- The necessary fiscal support required by the Bank of Ghana should be provided by the government to ensure its continued effective functioning as the Regulator. The government through the Bank of Ghana would have to consider ad hoc measures that would



mitigate panic-driven withdrawals and capital flights.

- Dovetailing the preceding recommendation is the need for practical implementation of the Financial Stability Fund to be considered in earnest to assure consistency in the liquidity posture of banks and other financial institutions; and assuage any skepticism that customers, clients and the general public may have on soundness of the banking and financial system. Quite importantly, functionality of the Financial Stabilisation Fund would assure resilience of the banking and financial system through adequate liquidity to mitigate foreseen and unforeseen short-term market shocks; and ensure stimulation of the economy.

- Measures that would mitigate banks' losses; and mitigate losses to be incurred by non-bank institutional investors and households should be rolled-out by the government. The effect on banks could be minimised if maturities are extended; and policy rate is lowered rather than reducing the nominal amount of the outstanding claims.

- Banks must strive towards early recognition of losses. This would have to be paired with a strategy that would assure restoration of banks' capital buffers. To ensure effective functioning of the banking system; and shore up public confidence, banks would require system-wide emergency support that allows for conversion of illiquid assets into cash.

- The potentially adverse consequences of domestic debt restructuring require careful evaluation by the government. Generally, legal certainty and predictability would be improved considerably if government includes and uses collective action clauses in domestic debt contracts to offer potentially superior restructuring mechanism.

- Fairness and transparency should dominate the debt restructuring process to garner broader creditor participation and acceptance. The intended debt restructuring strategy would work best if it ensures constructiveness and transparency towards engagement of creditors; draws on market-based incentives; and presents debt exchange as part of consistent macroeconomic plan.

- Public debt sustainability and liquidity would be restored if the rigorous and credible consolidation plan intended for implementation in the medium-term seeks inter alia to restore macroeconomic stability; ensure tremendous improvement in the country's primary balance; access to market; and to place the country's debt on a declining trajectory.

- The government should consider protracted restructuring. This could be implemented either through the G20 Common Framework and similar to Ethiopia, Zambia and Chad; or through a classical default, similar to Sri Lanka.

- Cautious efforts should be made by managers of the economy to maintain macro stability by preserving the combination of steady growth and low inflation. Although the Bank of Ghana's inflation target band for 2023 remains 8%± 2% (that is, target band of 6% to 10%), respective monthly inflation rates recorded during May 2023 and June 2023 were 42.2% and 42.5%; implying the need for constant review of monetary and fiscal policies to achieve set-inflationary targets.

Further Recommended Policy Measures

- Banks should consider diversification of their investment portfolios with strong concentration in private sector lending; to limit the after-shocks of any unforeseen sovereign domestic debt restructuring in the medium- or long-term.

- There should be considerations for recapitalisation as necessitated by the government's domestic debt exchange programme (DDEP). As noted earlier, effective functioning of the Financial Stability Fund is needed to complement the efforts of banks towards maintaining adequate short-term liquidity; and towards maintaining medium-term capital buffer; while the banks strategically position themselves for long-term capital injection to provide the requisite cushion and robustness.
- There is the need for the government, through the Regulator, to increase the Single Obligor Limit (SOL) during this critical period for severely impacted investors in the

financial sector, particularly those in the banking industry to mitigate any impairment losses on their investments.

- Consideration for financing instrument that provides sufficient predictability and flexibility to meet the needs of investors is quite imminent.

- Banks should be allowed to attract direct borrowing from multilateral institutions at very low or zero interest rate, so they (banks) could offer loans to local businesses at comparatively lower rates than prevailing market rates; and lower than the Ghana Reference Rate (GRR). Lower interest rate would increase the likelihood of loan repayments; reduce default and non-performing loans' (NPLs) rate; and accelerate private sector development through massive support for SMEs.

- Banks should consider frequent organisation of financial outreach programmes, including SME clinics to improve records keeping for businesses in this category; and assure repayment of contracted loans.

- There should be limited concentration of banks' investments in government securities, especially bonds; keen "eye" should be kept on offers for Treasury bills; mouth-watering rates may not be sustainable in the long-term.

- Government should offer "realistic" coupon rates for its (issued) securities – bonds and Treasury bills; it (government) should not offer "bait" or unsustainable coupon rates; and commit resources towards settling the renegotiated debt obligations.

- Conscious efforts should be made by government to restore fiscal sustainability to increase the country's reattraction to local and foreign direct investments.

Conclusion

Practical and fair architecture inherent with well-developed rules, procedures and processes for sovereign debt restructuring remains inevitable in the nation's quest for debt sustainability. An important lesson gleaned from Ghana's recent debt restructuring programme remained how to manage contagion; an experience that would prove invaluable in future debt crisis management.

More forthcoming stance by both local and foreign investors would be indicative of an important vote of confidence in future of the economy; and affirm financial stability of the country. Deliberate efforts would be required by the government, relevant ministries, regulatory bodies; banks and other financial institutions; and other key stakeholders within the larger economy to build the necessary cushions against internal and external shocks through improved debt structures and expanded international reserves; while accelerating sophistication of the financial sector and risk management. □

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Origin and Evolution of Development Bank Ghana:

Vision and Role Within the Financial Ecosystem

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In a world where market forces drive economic growth, targeted financial interventions are crucial for fostering sustainable development; and bridging the gap between market-driven finance and critical public sector needs. Development banking emerges as a vital instrument in achieving these goals. Development Bank Ghana (DBG) exemplifies the potential of a well-structured development bank to catalyse economic growth; and poverty reduction within its nation. This comprehensive article delves into DBG's vision, role; and unique position within the financial ecosystem, showcasing its potential for success in the years to come.

As a nascent institution with just a year of operations under its belt, DBG has already made significant strides in addressing Ghana's socio-economic challenges. This article begins by exploring the founding principles and strategic objectives that guide DBG's operations. In addition, it offers insights into the bank's operational model, product offerings; and non-financial services that have the potential to address market failures; and stimulate growth in key sectors of the economy.

Further, the article emphasises DBG's role within the broader financial ecosystem. It highlights the bank's collaborative efforts with various stakeholders, including the government, international development agencies; and private sector players. These partnerships hold the key to DBG's success, as they enable the bank to attract private capital, mitigate risks; and promote social and environmental objectives.

Despite DBG's relatively short operational history, the bank's promising start offers a glimpse into its potential for success. Drawing from global best practices and leveraging its unique strengths, DBG has the opportunity to become a driving force in Ghana's economic transformation. By continually adapting to market dynamics and addressing emerging challenges, DBG can maximise its impact; ensure sustainable growth and lasting socio-economic progress for the nation.

This article presents compelling case for DBG's potential for success, emphasising the importance of development banking in bridging the gap between market forces and public sector priorities. With focus on DBG's vision and role within the financial ecosystem, the article offers valuable insights into how development banks can effectively address the needs of their respective nations; and catalyse positive change for brighter future.

Navigating Uncertain Economic Terrain: The Pivotal Role of Development Banks in the Financial Ecosystem

Amidst fluctuations of the global economy and complexities of the financial landscape, development banks have emerged as beacon of hope and stability. Their distinct function within the financial ecosystem enables them to serve as the bridge between market-oriented finance; and the exigencies of public sector development. This role becomes even more crucial during periods of economic turbulence when conventional financial institutions might hesitate to invest in long-term development initiatives.

It is essential to recognise the ability of development banks, such as DBG, to address market shortcomings; offer countercyclical support; and promote comprehensive and sustainable growth. By concentrating on crucial sectors that contribute to socio-economic development, these institutions have the capacity to catalyse job creation, innovation; and economic resilience.

1. Rectifying Market Imperfections

Development banks have a critical role in rectifying market imperfections through the support of projects and sectors that might be deemed too risky; or unprofitable by private financial institutions. These projects often yield considerable positive externalities, such as environmental conservation, social inclusion; or regional advancement. DBG, for instance, focuses on sectors like manufacturing, agribusiness; and high-value services, which hold the potential to propel Ghana's economic metamorphosis.

2. Delivering Countercyclical Support

During times of economic instability, private sector investments tend to wane, exacerbating the detrimental effects of a downturn. Development banks, armed with their long-term outlook and public mandate, can step in to offer countercyclical support by sustaining; or even augmenting their lending activities. This approach helps to stabilise the economy, diminish the intensity of recessions; and promote recovery.

3. Championing Inclusive and Sustainable Growth

Development banks hold unique position in promoting sustainable development goals by funding projects that foster social inclusion, environmental sustainability; and economic fortitude. By integrating environmental, social and governance (ESG) criteria into their lending practices, development banks can encourage responsible business conduct; and ensure the projects they finance contribute to more inclusive and sustainable future.

4. Cultivating Collaboration and Partnerships

One of the keys to the success of development banks lies in their ability to cultivate partnerships; and collaboration among diverse range of stakeholders. By harnessing resources from government, international development agencies; and private sector players, development banks can effectively mitigate risks and mobilise additional capital for high-impact projects. This strategy enables them to magnify their effect on economic development; and contribute to more robust financial ecosystem.

Grasping the role of development banks in the financial ecosystem is of paramount importance, particularly amidst global economic turmoil. Institutions like DBG can play vital role in addressing market failures, providing countercyclical support; fostering inclusive and sustainable growth; and nurturing collaboration and partnerships. By appreciating the significance of development banks, policymakers

and stakeholders can ensure these institutions effectively contribute to more resilient and equitable global economy.

The Promising Track Record of Development Banks Around the Globe

In the contemporary era of global economic uncertainty, development banks have emerged as beacons of hope, showcasing their potential to promote growth, address market failures; and foster economic stability. As we evaluate the remarkable success of several national and multinational development banks, we gain insights into their transformative impact.

1. National Development Banks

a) KfW Bank: Since its inception in 1948, the German KfW Bank has been a driving force behind the country's post-war reconstruction and economic resurgence. KfW is renowned for its effective financing mechanisms, environmental sustainability focus; and unwavering commitment to innovation.

b) Brazilian Development Bank: Established in 1952, BNDES has been pivotal in Brazil's industrial and infrastructure growth. By leveraging public and private sector partnerships, BNDES has catalysed investments in critical sectors, enhancing the nation's global competitiveness.

c) Development Bank of Japan: The DBJ, founded in 2008, has demonstrated its commitment to fostering innovation and entrepreneurship in Japan. By providing long-term funding for enterprises; and fostering collaboration with private financial institutions, DBJ has significantly contributed to Japan's economic development.

2. Multinational Development Banks

a) World Bank Group: The World Bank Group (WBG), established in 1944, has played an essential role in providing financial and technical assistance to developing countries worldwide. With its focus on poverty reduction; and promotion of sustainable development, WBG has been a key actor in addressing global challenges such as climate change, health and education.

b) European Investment Bank: The European Investment Bank (EIB), founded in 1958, serves as the European Union's financing institution, supporting investments that contribute to regional integration and economic growth. The EIB's strategic focus includes infrastructure development, small- and medium-sized enterprises (SMEs); and environmental sustainability.

c) African Development Bank: Since its establishment in 1964, the African Development Bank (AfDB) has been committed to driving sustainable economic development and social progress in Africa. By providing financial support and technical assistance to African countries, AfDB has made significant impact on poverty reduction, infrastructure development; and regional integration.

The achievements of these development banks provide valuable lessons for the newly established Development Bank Ghana. By embracing best practices, fostering innovation; and cultivating strategic partnerships, DBG has the potential to become driving force for economic transformation; and growth within Ghana and beyond.

The Troubled Past of Development Banks in Ghana and the Urgency to Succeed with DBG

Despite the inspiring examples set by successful development banks worldwide, Ghana's history with such institutions has been fraught with challenges. However, the establishment of the new Development Bank Ghana brings with it an opportunity to rewrite this narrative; and pave the way for brighter future.

Over the years, Ghana has witnessed the rise and fall of several development banks, with many succumbing to financial mismanagement, inadequate governance structures; and inability to remain competitive in the market. Some notable examples include the National Investment Bank, Agricultural Development Bank and Social Security Bank. The collapse of the development institutions did not only hinder economic growth, but also eroded public trust in development banks as catalysts for progress.

However, DBG offers Ghana a chance to learn from past mistakes; and implement sustainable, innovative; and effective development bank that caters to the nation's long-term financing needs. The urgency to get it right this time is palpable, as Ghana faces pressing challenges such as unemployment; inadequate infrastructure; and lack of access to capital for entrepreneurs and small businesses.

To ensure DBG's success, it is imperative to draw from global best practices; establish robust governance structures; and adopt strategic focus on key sectors with the potential for transformative growth. Further, DBG must foster strategic partnerships with the private sector, multilateral development banks; and international development agencies to harness their expertise, technical assistance and financial support.

The stakes are high for the Development Bank Ghana, but with careful planning, unwavering commitment to best practices; and collective efforts of all stakeholders, DBG has the potential to create lasting and positive impact on the Ghanaian economy; and society at large.

Genesis of Development Bank Ghana

The historical backdrop leading to DBG's establishment.

The Task Force

Amidst enduring financing challenges for crucial sectors, the Government of Ghana established a Task Force to evaluate the feasibility; and design of new development bank, Development Bank Ghana. This Task Force, composed of financial sector experts and stakeholders, was responsible for conducting comprehensive analysis of the existing financial landscape; and identifying potential solutions to bridge the financing gaps.

The Task Force examined various development bank models worldwide, considering their triumphs, challenges; and adaptability to the Ghanaian context. They weighed the merits and drawbacks of starting a new institution from scratch ("greenfield" approach); or restructuring existing institutions, such as the Agricultural Development Bank and National Investment Bank ("brownfield" approach).

After thoughtful consideration, the Task Force recommended founding DBG as greenfield entity, allowing for quicker setup process; adherence to best practice principles; and the potential to attract more private capital. The greenfield approach would also enable DBG to start at scale; and make significant impact within a relatively short period.

The Task Force defined DBG's mandate; ownership; legal and governance structures; products and services. These recommendations laid the groundwork for DBG's establishment; and guided its strategic objectives, including focus on manufacturing, agribusiness and ICT sectors; and prioritising Ghanaian-owned SMEs and Small Corporates with significant Ghanaian participation. The task force was able to clearly articulate the need for development bank and its viability.

These recommendations were instrumental in shaping DBG's vision and role within the financial ecosystem, ensuring the bank was established with clear purpose; strong governance structure; and the ability to make meaningful impact on the Ghanaian economy.

Feasibility Study

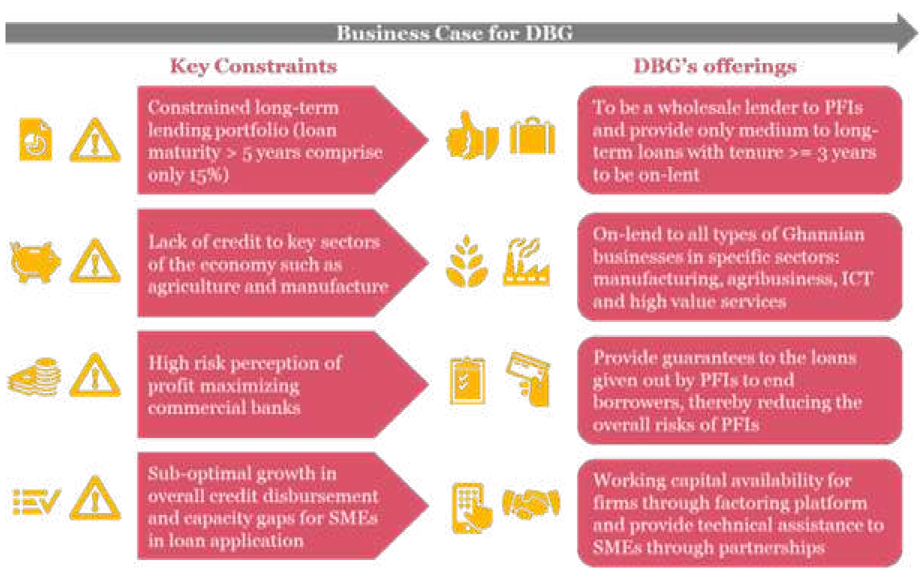
In reflecting on the genesis of DBG, one cannot overlook the influential 2019 report by PwC that meticulously dissected the Ghanaian economic landscape; and elucidated the government's long-term priorities. The report astutely identified the roadblocks hindering sustainable and inclusive growth, subsequently making compelling case for the establishment of national development bank.

The feasibility study by PwC served as cornerstone for the establishment of Development Bank Ghana, providing comprehensive analysis of the Ghanaian economic landscape; government priorities; and barriers to growth. The study identified key sectors in need

of long-term financing such as agriculture, ICT and services, which have driven steady growth of the Ghanaian economy.

The government's long-term goals include economic transformation; and job creation through the development of these key sectors. However, challenges such as lack of access to long-term finance; unreliable power supply; and inadequate infrastructure impede sustainable and inclusive growth.

To address these financing gaps, DBG was established as professionally managed; and well-structured institution, insulated from political interference.



The study outlined critical success factors for DBG, including government equity support; collaboration with financial institutions; and adherence to governance best practices. DBG's mandate focuses on priority sectors; adopting wholesale lending model to provide long-term funds to financial institutions, for on-lending to end borrowers. The legal and regulatory framework; ownership model; and governance structure were also examined, with DBG expected to evolve over time, incorporating international partners and the private sector.

Refinancing of PFI's loans	• Amount equivalent to outstanding portfolio of loans and advances of PFIs for eligible activities will be eligible for refinancing
Term Loans (3-15 years)	• In lump sum amount, not to exceed 5% of the PFIs' total net worth at any point • To be used by PFI only for the purposes as indicated in the DBG Scheme
Credit Guarantee Funds and DBG National Equity and Startup Fund	• Credit Guarantee Fund - 75% guarantee of Term Loans, subject to maximum threshold decided by Board (25% PFIs' commercial risk), which are approved with collateral and third party guarantees • Equity Fund - Up to 20-25% of the overall project costs will be covered through the soft loans, given out as quasi-equity, by DBG's Equity Fund
Non-financial services - Business Development Services (BDS); factoring platform	• BDS to be provided by networking with specialized institutions, and not by itself • Includes SME capacity building, specific consultancy services, loan access support, etc. • Factoring platform - provision of an internet-based infrastructure to facilitate and promote factoring transaction in Ghana

In summary, the 2019 feasibility study provided blueprint for DBG, enabling it to become agent of economic transformation and job creation in Ghana by identifying gaps in the existing financial system; and addressing the challenges faced by priority sectors.

Ghana Development Finance Project

Following the comprehensive feasibility study led by PwC in 2019, the World Bank embarked on the ground-breaking Ghana Development Finance Project in 2020, allocating a substantial $250 million investment to ignite economic growth; stimulate job creation; and catalyse economic metamorphosis within the nation. This visionary initiative sought to fortify the financial sector, with particular attention paid to small- and medium-sized enterprises (SMEs); and underprivileged sectors, such as agribusiness, manufacturing; and information and communication technology (ICT).

At the epicentre of this project emerged DBG, direct outcome of the feasibility study. DBG's raison d'être was to confront the persistent long-term financing gap faced by SMEs; and businesses operating in strategic sectors. By extending financial access and business development services, DBG aimed to embolden these enterprises; nurturing growth and competitiveness.

The Ghana Development Finance Project was meticulously designed to play an indispensable role in bolstering DBG's capabilities; and ensuring proficient operations to satisfy the demands of its target market. By concentrating on DBG and the broader financial sector, the project sought to propel economic growth and transformation in Ghana.

Licencing

In the aftermath of the comprehensive feasibility study, DBG emerged as an integral component of the ambitious Ghana Development Finance Project. With its operational licence granted by the Bank of Ghana on November 11th, 2021, DBG embarked on critical journey to tackle the long-standing financing challenges faced by key sectors of the Ghanaian economy. The inception and licencing of DBG within the grander scheme of the Ghana Development Finance Project epitomise significant turning point in Ghana's quest for sustainable and inclusive economic prosperity

DBG's Foundational Principles and Objectives

DBG's establishment was based on several founding principles and objectives, designed to address the financing challenges faced by key sectors in the Ghanaian economy. These principles aimed to support sustainable growth; stimulate economic diversification; and foster private sector development, particularly in the manufacturing, agribusiness and ICT sectors.

Access to long-term finance: One of DBG's primary objectives was to tackle the lack of access to long-term finance for businesses in target sectors. By providing this essential funding, DBG sought to enable businesses to scale up their operations; invest in innovative technologies; and ultimately contribute to the country's overall economic growth.

Financial inclusion and support for local enterprises: DBG prioritised support for Ghanaian-owned SMEs; small corporates with significant Ghanaian participation; and small corporates or firms that provided ample business opportunities for Ghanaian-owned SMEs. This focus aimed to promote financial inclusion, empower local enterprises; and ensure the benefits of economic growth were distributed more equitably among the Ghanaian population.

Robust governance and private sector involvement: DBG's ownership and governance structure was designed to minimise the risk of political interference, enhance professionalism; and attract private investment. By involving both public and private stakeholders, DBG aimed to balance the need for government support with market-driven approaches to ensure its long-term success and sustainability.

Environmental and Social Management: DBG has established robust and transformational governance framework to operationalise the environmental and social management system into our culture; business operations; systems; and governance processes. The Environmental and Social Management System (ESMS) guides our wholesale financing and investment decision-making process in assessing, managing; and controlling the associated risk and opportunities.

It is envisaged that each participating financial institution and its eligible SMEs undergo detailed environmental and social assessment; and monitoring to ensure compliance and drive Sustainability Stewardship. The Bank is aligned with the Ghana Sustainable Banking Principles and Sector Guidance Notes (2019); World Bank Environmental and Social Standards as well as the European Investment Bank (EIB) E&S Standards; KfW Sustainability Guidelines; and AfDB Integrated Safeguards System (ISS) setting the tone at the top; and embedding our approach in our stakeholders in value-driven and ethical way.

Collaboration with existing financial institutions: DBG was not intended to compete with private banks, but to complement their financial intermediation role. By working closely with other banks and financial institutions, DBG aims to enable them to reach more clients; support innovative projects; and address financing gaps that the private sector could not fill on their own.

Adaptability and continuous improvement: DBG's mandate and objectives were designed to be periodically reviewed and revised to ensure the institution remains relevant to the country's changing needs and priorities. This adaptability allows DBG to stay aligned with contemporary national development priorities; and respond effectively to new challenges and opportunities that emerge over time.

The founding principles and objectives of DBG laid the groundwork for dynamic; and responsive development bank that could play crucial role in driving economic growth and prosperity in Ghana. By focusing on these core principles, DBG will position itself as integral part of the country's financial ecosystem, contributing to the overall

development and wellbeing of its people.

Key Players and Stakeholders Involved in the Creation of DBG

The creation of DBG involved wide range of stakeholders, with each playing critical role in shaping the institution's vision, structure; and strategic direction. These key players collaborated to ensure DBG was designed to effectively address the needs of the Ghanaian economy; and foster sustainable development.

Development Bank Task Force: The Development Bank Task Force was set up by the Government of Ghana to provide guidance on the design and establishment of DBG. Comprising experts from various fields, the Task Force conducted extensive research and analysis to identify the most suitable model for the development bank. The Members recommended the greenfield approach, which involved starting DBG from scratch; and provided valuable insights on the bank's governance, operations; and funding mechanisms.

Government of Ghana: The Government of Ghana played central role in the establishment of DBG, recognising the need for a development bank to address critical financing gaps in the economy. It provided the initial impetus, resources and policy direction for the creation of DBG; and remained major shareholder in the institution. The government committed US$250 million to support DBG's capitalisation and operations.

International Development Partners: International development partners, such as the African Development Bank, KfW, World Bank; and European Investment Bank, played crucial role in providing technical assistance, funding; and expertise during the establishment of DBG. Their support included capital commitments, which contributed to DBG's financial resources; and enabled the institution to start its operations.

Parliament of Ghana: The Parliament of Ghana enacted the Development Finance Institutions Act 2020 (Act 1032), which provided the legal framework for the establishment and operation of DBG. This act laid the foundation for the governance, operations; and funding mechanisms of the institution.

Bank of Ghana: The Bank of Ghana, as the central bank and regulator of the financial sector, played key role in the establishment of DBG. It issued the Capital Directive, which set the capital requirements for the bank; and provided guidance on the institution's financial structure. Bank of Ghana also issued the licence for DBG to commence its operations as development finance institution.

Existing Financial Institutions: DBG collaborates with existing banks and financial institutions in Ghana, onboarding them as PFIs to extend its reach; and address financing gaps in the market. This partnership ensures DBG's activities complement those of the PFIs, working together to support the growth; and development of Ghanaian businesses and entrepreneurs.

Ghanaian Businesses and Entrepreneurs: Ghanaian businesses and entrepreneurs, particularly in the manufacturing, agribusiness and ICT sectors, play essential role in shaping DBG's focus and priorities. Their needs and perspectives informed the bank's strategy; and helped to ensure its products and services are designed to address the most pressing challenges faced by the private sector.

The successful establishment of DBG was the result of the concerted efforts of these key players and stakeholders. Their collaboration and collective vision enabled the creation of a development bank that could effectively contribute to the growth and diversification of Ghana's economy; promote financial inclusion; and support development of the private sector.

> **"DBG intends to establish an Equity Investment Fund in 2023. This fund would enable DBG to make equity investments in high-growth SMEs with the potential to become industry leaders."**

Evolution of DBG: Story of Adaptation and Growth

Milestones and Achievements

The Development Bank Ghana has been carving a niche for itself in the financial landscape of Ghana since its inception. Its accomplishments underscore the institution's dedication to addressing economic needs of the country; while promoting sustainable development. Some of the notable milestones are as follows:

Licence: DBG commenced operations as development finance institution on November 11, 2021, after receiving its official licence from the Bank of Ghana.

Membership in AADFI: DBG joined the Association of African Development Finance Institutions (AADFI) in May 2022, allowing it to collaborate with; and learn from other development finance institutions across Africa, thus reinforcing its growth trajectory.

Official Launch: DBG's official launch on June 14, 2022, marked the inception of its public-facing operations; and solidified its presence in the Ghanaian financial ecosystem.

First Loan: DBG successfully disbursed its first loan on June 30, 2022, showcasing its potential to bolster the private sector in Ghana.

Commencement of SME Capacity Building: DBG embarked on capacity-building programme for SMEs in August 2022, aiming to enhance their management and operational skills; thereby empowering them to contribute to Ghana's economy.

Joining the UN Global Compact: DBG's commitment to responsible business practices and sustainable development in Ghana was reinforced, when it joined the United Nations Global Compact in September 2022.

Disbursement of Loans: In its first six months of operation, DBG successfully disbursed GH₵245 million to Ghanaian businesses, demonstrating its commitment to driving economic growth and job creation. With strong focus on promoting inclusivity, DBG targeted businesses that could generate new job opportunities, particularly for women and youth. This early success signalled DBG's potential to have lasting impact on Ghana's economy and the well-being of its citizens; while contributing to the achievement of its long-term goals.

These milestones epitomise DBG's determination to fulfil its mandate; and contribute to Ghana's economic growth and diversification. DBG would persist in its endeavours to promote financial inclusion; support private sector development; and foster sustainable growth in the country.

Navigating the Shifting Economic Landscape: DBG's Strategic Recalibration

Ghana confronted significant economic hurdles in 2022, including decelerating GDP growth; elevated inflation and interest rates; burgeoning fiscal deficit; and currency depreciation. These challenges compelled DBG to revisit its strategies; and develop sustainability and growth blueprint to effectively back Ghana's economy.

DBG realigned its pricing model; and prioritised sectors with the potential to significantly impact economic growth and stability. Through agility and innovation, DBG devised strategic roadmap to guide its efforts in bolstering

Ghana's economy. The blueprint identified several key sectors for short- to medium-term growth, including poultry, rice and cereals, pharmaceutical production, tourism, textiles and garments, storage facilities; and secondary agri-processing.

DBG strives to balance its responsibility as steward of public funds, with its mission to make substantial impact in the face of economic challenges. The institution acknowledges the importance of transparent and accountable resource management towards maintaining public trust; and ensuring efficient fund utilisation.

Broadening the Horizons: DBG's Expansion of Services and Products

As DBG adapts to the evolving economic landscape and diverse needs of its clientele, it plans to augment its services and products in 2023. The three main initiatives include operationalising the Partial Credit Guarantee (PCG) subsidiary; establishing Equity Investment Fund; and launching the Digital Platform (DBG-Plus).

DBG aspires to set up PCG subsidiary to provide partial credit guarantees to SMEs that face difficulty in obtaining financing from traditional sources; due to inadequate collateral or credit history. DBG would collaborate with Participating Financial Institutions to provide these guarantees, helping SMEs secure the necessary financing.

Additionally, DBG intends to establish an Equity Investment Fund in 2023. This fund would enable DBG to make equity investments in high-growth SMEs with the potential to become industry leaders. By collaborating with other Equity Funds in the market, DBG could support the growth of these SMEs, create jobs; and generate returns for investors.

Moreover, DBG is poised to launch DBG-Plus, digital platform designed to facilitate financing for MSMEs from variety of financiers, including banks and non-banks. The platform would aggregate solutions such as training and capacity building for MSMEs; supply chain financing; e-accounting and e-invoicing applications; and payment solutions. These solutions would help SMEs streamline their operations; improve access to financing; reduce costs; and enhance profitability. The first phase of the project is expected to be rolled out in 2023.

DBG's Vision: Roadmap for the Future

DBG's Long-Term Vision and Strategic Objectives

The overarching ambition of DBG is to "accelerate inclusive and sustainable economic transformation by fostering the growth of a competitive private sector." This aspiration signifies the organisation's dedication to making substantial impact on Ghana's economy; businesses; and individuals. To effectively accomplish the foregoing, DBG has established five mission pillars.

The mission pillars are to foster strong partnerships to finance

economic growth, create jobs and build capacity for SMEs; attract, develop and retain exceptional people; provide long-term financing; and de-risk services underpinned by technology and evidence-based research; operate as independent and financially sustainable world-class institution; and promote ESG excellence within supporting businesses. By anchoring daily operations in these mission pillars and core values, DBG ensures its focus remains on its long-term vision; and strategic objectives.

DBG's Role in Shaping Ghana's Financial Ecosystem

Development Bank Ghana is crucial in moulding Ghana's financial ecosystem by providing vital support to businesses; encouraging financial inclusion; and facilitating sustainable development. DBG's activities contribute to more resilient and inclusive financial landscape, ultimately promoting economic growth; and enhancing the nation's well-being. DBG influences the financial ecosystem through the following key aspects:

Bridging Financing Gaps: DBG addresses financing gaps by offering targeted support to underserved sectors and populations, including SMEs; women-led businesses; and rural communities. By providing affordable credit and innovative financing solutions, DBG empowers these groups to access the financial resources they need to flourish.

Fortifying Financial Institutions: DBG collaborates with Participating Financial Institutions and other stakeholders in the financial sector to bolster their capacity and resilience. Through technical assistance; capacity building; and provision of partial credit guarantees, DBG enables financial institutions to better serve their clients, manage risks; and overcome economic challenges.

Advocating Sustainable Practices: As responsible development finance institution, DBG fosters sustainable development by incorporating ESG considerations into its financing and investment decisions. DBG urges businesses and projects to adopt sustainable practices, contributing to more environmentally friendly and responsible financial ecosystem.

Nurturing Innovation and Entrepreneurship: DBG supports innovation and entrepreneurship by financing high-growth and high-impact sectors; investing in equity funds; and providing technical assistance to businesses. These efforts contribute to the creation of new enterprises; development of innovative products and services; and expansion of existing businesses, ultimately driving economic growth and job creation.

Championing Financial Inclusion and Digitalisation: DBG endeavours to enhance access to financial services for all segments of society; by promoting financial inclusion and leveraging digital technology. The institution develops and implements digital platforms and solutions that facilitate access to financing; streamline business operations; and improve overall efficiency of the financial ecosystem.

DBG's Dedication to Promoting Financial Inclusion and Sustainable Development

DBG is committed to advancing financial inclusion and sustainable development as part of its core mandate. Recognising the significance of these factors in achieving long-term economic growth; and improving the well-

being of Ghanaians, DBG has designed its operations and strategies accordingly. DBG's commitment to promoting financial inclusion and sustainable development is evident through initiatives such as:

Expanding Access to Finance: DBG works to broaden access to finance for underserved groups, including SMEs, women-led businesses; and rural communities. By providing tailored financial products and services to these groups, DBG bridges the financing gap; and fosters inclusive economic growth.

Fostering Innovative Financial Solutions: DBG supports the development of innovative financial solutions that promote financial inclusion and sustainable development. These solutions may include blended financing, partial credit guarantees; and digital platforms that facilitate access to finance and other essential services for underserved populations.

Collaborating with Stakeholders: DBG actively collaborates with various stakeholders, including Participating Financial Institutions; development partners; and government agencies, to advance financial inclusion and sustainable development. These partnerships enable DBG to leverage expertise; resources; and networks to maximise its impact on the financial ecosystem.

Concentrating on High-Impact Sectors: DBG directs its financing and investment activities towards high-impact sectors that have the potential to drive economic transformation; create jobs; and address pressing social and environmental challenges. These sectors may include agriculture; renewable energy; affordable housing; and healthcare, among others.

Integrating ESG Considerations: DBG incorporates environmental, social and governance considerations into its financing and investment decisions. By prioritising projects and businesses that adhere to sustainable practices; and demonstrate positive social and environmental impacts, DBG contributes to the development of more responsible and sustainable financial ecosystem.

Capacity Building and Technical Assistance: DBG provides capacity building and technical assistance to businesses and financial institutions, enabling them to better serve their clients; manage risks; and adopt sustainable practices. These efforts contribute to overall resilience and inclusiveness of the financial ecosystem.

By focusing on these initiatives, DBG demonstrates its strong commitment towards promoting financial inclusion and sustainable development; ensuring Ghana's financial ecosystem is more resilient, inclusive; and supportive of the nation's long-term economic growth and prosperity.

Proactive Approaches for DBG to Alleviate Future Crisis

Development Bank Ghana acknowledges the imperative to prepare for impending economic crises, as such events bear considerable repercussions for the nation's financial ecosystem; and overall economy. To alleviate potential crisis effects, DBG has instituted several proactive approaches, which encompass the following:

Portfolio Diversification: DBG aspires to sustain diversified portfolio throughout various sectors, regions; and financial instruments. By distributing its investments and financing activities, DBG would lessen its susceptibility to sector-specific or region-specific shocks, consequently augmenting its

resilience to potential crises.
Risk Management Enhancement: DBG persistently endeavours to fortify its risk management capabilities. This involves adopting robust risk evaluation and monitoring practices, in addition to implementing early warning systems to recognise potential threats to the financial ecosystem. Actively managing risks, DBG can better foresee and react to crises.

Robust Partnership Formation: DBG actively engages with diverse stakeholders, including government agencies; development partners; and financial institutions, to cultivate co-operation and information sharing. Collaborating with these partners allows DBG to better comprehend emerging risks; and co-ordinate responses to potential crises.

SMEs and Financial Institutions Support: DBG fosters capacity building and resilience of SMEs and financial institutions through targeted technical assistance; and training programmes. Assisting these entities in strengthening their operations and risk management practices strategically positions DBG to enhance overall stability of the financial ecosystem.

Financial Inclusion Emphasis: DBG remains devoted to promoting financial inclusion, which could bolster resilience of the financial ecosystem by broadening the base of economic actors; and miminishing risk concentration. DBG's initiatives to advance financial inclusion ensure more individuals and businesses access essential financial services, even amid economic stress.

Sustainable Practices Advocacy: DBG endorses sustainable business practices and ESG considerations in its financing and investment activities. Supporting projects and businesses adhering to sustainable practices enhances DBG's contribution to long-term resilience of the financial ecosystem; and the wider economy.

Innovation and Digitalisation Culture: DBG fosters innovation and digitalisation within the financial sector, as these developments could enhance the efficiency and resilience of the financial ecosystem. DBG's consistent support towards the development and adoption of novel financial technologies helps to create adaptable and responsive financial sector.

By employing these proactive approaches, DBG aspires to mitigate future crises' impact on the financial ecosystem and the broader economy; and ensuring Ghana remains resilient and well-equipped for any challenges that may emerge.

Optimal Strategies for Capitalising on the Financial Ecosystem's Opportunities

Strengthening Collaboration Among DBG, Financial Institutions and Other Stakeholders
Development Bank Ghana acknowledges the significance of collaboration and partnership in capitalising on opportunities within the financial ecosystem. Close engagement with various stakeholders could help DBG to access their expertise, resources; and networks to establish a financial sector that is more inclusive and sustainable. DBG's key collaborative endeavours include:

PFI Partnerships: DBG collaborates with a wide array of PFIs, encompassing commercial banks; non-bank financial institutions; and microfinance institutions, to offer financing and support to SMEs. These partnerships enable DBG to broaden its reach, augment its impact; and gain insights into specific needs of different market segments.

Development Finance Institutions' Engagement: DBG closely liaises with DFIs, such as the African Development Bank, KfW, World Bank; and European Investment Bank, which have provided capital commitments to support DBG's establishment and operations. These partnerships grant DBG access to technical expertise, financial resources; and leading international organisations' best practices.

Government Agencies' Co-operation: DBG partners with various government agencies, including ministries and Bank of Ghana to align its strategies with national development priorities; and regulatory frameworks. This collaboration ensures DBG's initiatives contribute to the country's broader goals.

Industry Associations and Networks Membership: DBG is a member of organisations such as the African Association of Development Finance Institutions and United Nations (UN) Global Compact. Participation in these networks allows DBG to engage with industry peers, share knowledge; and gain insights into emerging trends and best practices in the financial sector.

Capacity Building and Technical Assistance Support: DBG co-operates with various stakeholders to provide capacity building and technical assistance to SMEs and financial institutions. The initiatives strengthen these entities' capabilities, enabling them to become more competitive and resilient in the face of market challenges.

DBG's persistence and reinforced collaboration with other financial institutions and stakeholders ensure it is better positioned to capitalise on opportunities within the financial ecosystem, drive sustainable growth; and advance financial inclusion in Ghana.

Embracing Technological Advancements and Digitalisation

In the rapidly evolving financial landscape, DBG comprehends the importance of embracing digitalisation and technological advancements to remain competitive; and drive growth in the financial ecosystem. By adopting innovative technologies and digital solutions, DBG can enhance its operations, improve service delivery; and provide better support to its customers. DBG is leveraging digitalisation and technology through:

Digital Platform Launch (DBG-Plus): DBG is launching DBG-Plus, a digital platform designed to facilitate financing for MSMEs by various financiers, including banks and non-bank institutions. The platform will aggregate solutions such as training, capacity building, supply chain financing, e-accounting, e-invoicing applications; and payment solutions. The provision of these digital services makes it possible for DBG to assist SMEs in streamlining their operations; improving financing access; and enhancing their profitability.

Digital Banking Solutions Implementation: DBG closely collaborates with its Participating Financial Institutions to implement digital banking solutions, thereby enhancing financial access and convenience for SMEs and end-users. By promoting the adoption of digital financial services, DBG aims to drive financial inclusion; and support growth of the digital economy in Ghana.

Cybersecurity and Data Protection Enhancement: As digitalisation continues to transform the financial sector, DBG recognises the importance of maintaining robust cybersecurity measures and data protection practices. DBG is committed to investing in advanced cybersecurity technologies; and implementing best practices to safeguard its systems and customer information from cyber threats.

Digital Innovation and Entrepreneurship Encouragement: DBG aims to actively support digital innovation and entrepreneurship within the financial sector. DBG seeks to provide funding and technical assistance to innovative start-ups and SMEs. Through this initiative, DBG can help create an ecosystem that fosters the development and adoption of new digital solutions; driving growth and competitiveness in the financial sector.

Nurturing Innovation and Entrepreneurship in the Financial Sector

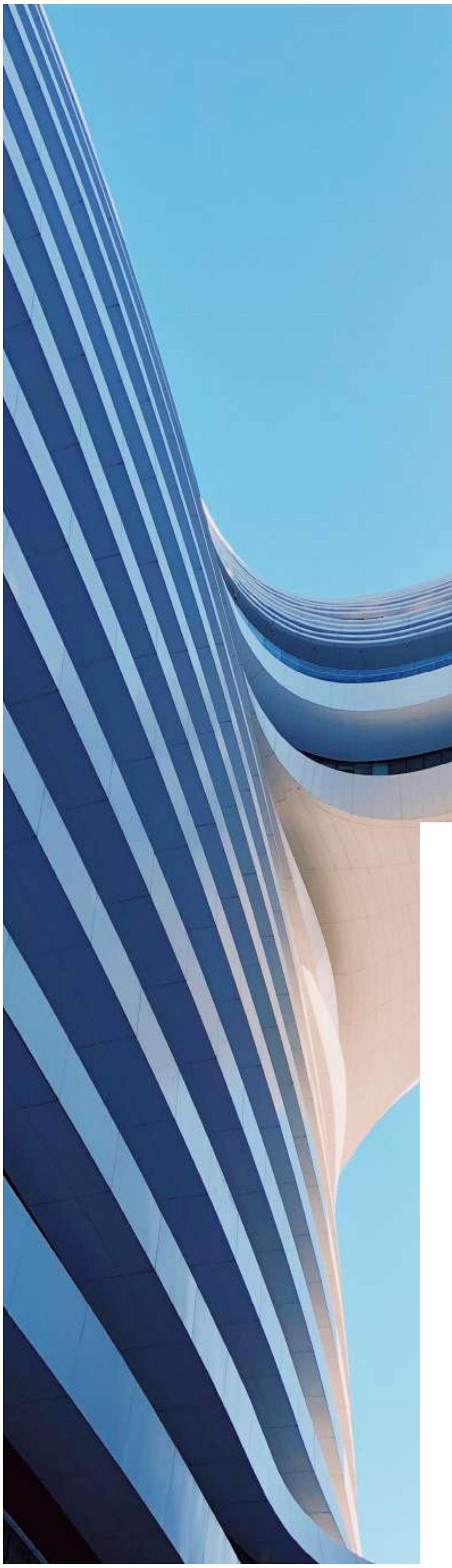
DBG recognises the critical role that innovation and entrepreneurship play in driving the financial sector's growth and resilience. In view of the foregoing, DBG remains committed to fostering an environment that supports new ideas and business models' development. Further, DBG is committed to enhancing the competitiveness of Ghana's financial ecosystem; and creating sustainable economic growth. In line with the above, DBG is committed to implementing the following strategies:

Facilitating Knowledge Sharing and Collaboration: DBG encourages collaboration and knowledge sharing among various stakeholders in the financial sector, including banks; non-bank financial institutions; regulators; and industry experts. DBG remains strongly committed to the organisation of workshops, conferences and networking events; and this facilitates creation of platform for stakeholders to exchange ideas, share best practices; and forge strategic partnerships that drive innovation and growth.

Investing in Capacity Building and Skills Development: DBG understands the importance of investing in human capital to drive innovation and entrepreneurship. To this end, DBG offers capacity building programmes and training initiatives targeted at SMEs; and entrepreneurs in the financial sector. These programmes aim to equip participants with the necessary skills and knowledge to develop innovative solutions; and grow their businesses.

Encouraging the Adoption of New Technologies: DBG actively supports the adoption of new technologies within the financial sector, such as digital platforms, data analytics, artificial intelligence and blockchain. The Institution remains committed to providing funding and technical assistance to businesses that are developing and implementing these technologies; to accelerate the drive towards innovation; and enhanced efficiency of the financial ecosystem.

Supporting Innovative Start-ups and SMEs: DBG is developing special programmes that would actively support innovative start-ups and SMEs through various financing solutions, including loans, equity investments; and partial credit guarantees. DBG's desire to provide access to capital and resources would enable these



businesses to develop and scale their innovative products and services, creating new opportunities within the financial sector.

By nurturing innovation and entrepreneurship within the financial sector, DBG plays a crucial role in shaping the future of Ghana's financial ecosystem, creating more inclusive and sustainable economy for all.

Conclusion

As worldwide economic turbulences persist in challenging Ghana's financial ecosystem, DBG continues to be a crucial force in steering through these arduous times. Learning from past occurrences and adopting forward-looking strategies to alleviate future crisis impacts, DBG exhibits unwavering dedication to ensuring the financial sector's stability and resilience. DBG's emphasis on vital industries, co-operation with other financial establishments; and adoption of digitalisation and technological innovations further solidify its function in manoeuvring global economic predicaments.

As we approach 2027, Development Bank Ghana embarks on a transformative journey, striving to achieve ambitious impact goals that aim to foster economic growth; and create more inclusive and sustainable environment for the country. These targets encompass a range of objectives, each emphasising different aspect of DBG's commitment to Ghana's economic development and social progress.

In the realm of job creation, DBG aspires to generate 110,000 jobs. With a focus on promoting gender and youth inclusion, DBG seeks to allocate 50% of these opportunities to women, ensuring they have equal access to employment; and the chance to contribute to the economy. Further, another 50% of job opportunities would be dedicated to the youth, helping to mitigate the challenges faced by young people in finding employment; and establishing their careers. DBG's dedication to providing equal opportunities would help to enhance social equity in the workforce; and contribute to long-term economic stability.

By boosting exports to the tune of $500 million, DBG aims to elevate Ghana's global trade presence. This ambitious target reflects DBG's commitment to fostering economic growth and prosperity for the country. By supporting local businesses in accessing international markets and expanding their customer base, DBG would help to create robust and diversified economy. Moreover, stronger export sector would lead to an increase in foreign exchange earnings, which would positively impact the overall economy; and contribute to Ghana's financial stability.

DBG is committed to supporting domestic production, with a goal to substitute $700 million worth of imports. This approach fosters self-reliance; and reduces dependence on foreign goods, laying the foundation for robust, independent economy. The decision to invest in the growth of local industries would help DBG to create more resilient economy that can better withstand external shocks. Further, promoting domestic production would help to generate employment opportunities; and stimulate economic activity at the local level, benefiting both businesses and communities.

In the pursuit of sustainable development, DBG plans to assist 20,000 businesses in becoming ESG compliant. This commitment to responsible growth is a testament to DBG's dedication to promoting sustainable business practices that protect the environment; and ensure the wellbeing of communities. By providing support and guidance to businesses as they transition towards ESG compliance, DBG would help to create more sustainable and resilient economy. Additionally, fostering ESG compliance can contribute to the long-term competitiveness of Ghanaian businesses; as global markets increasingly prioritise environmentally responsible and socially conscious practices.

DBG sets an ambitious target to disburse $430 million in loans, channeling resources towards stimulating the Ghanaian economy. These funds will be allocated to businesses across various sectors, providing them with the necessary capital to invest in growth, innovation; and job creation. By offering accessible financing solutions, DBG would help to bridge the gap between businesses and the resources they need to succeed; ultimately contributing to more vibrant and prosperous economy.

In line with global efforts to mitigate climate change, DBG plans to provide dedicated loans to participating financial institutions, specifically for low-carbon and climate-resilient investments. By supporting projects that minimise greenhouse gas emissions and contribute to climate adaptation, DBG is taking an active role in addressing the urgent need for climate action. Further, by investing in environmentally friendly projects, DBG would help to promote the development of green economy in Ghana; contributing to the country's long-term sustainability and resilience.

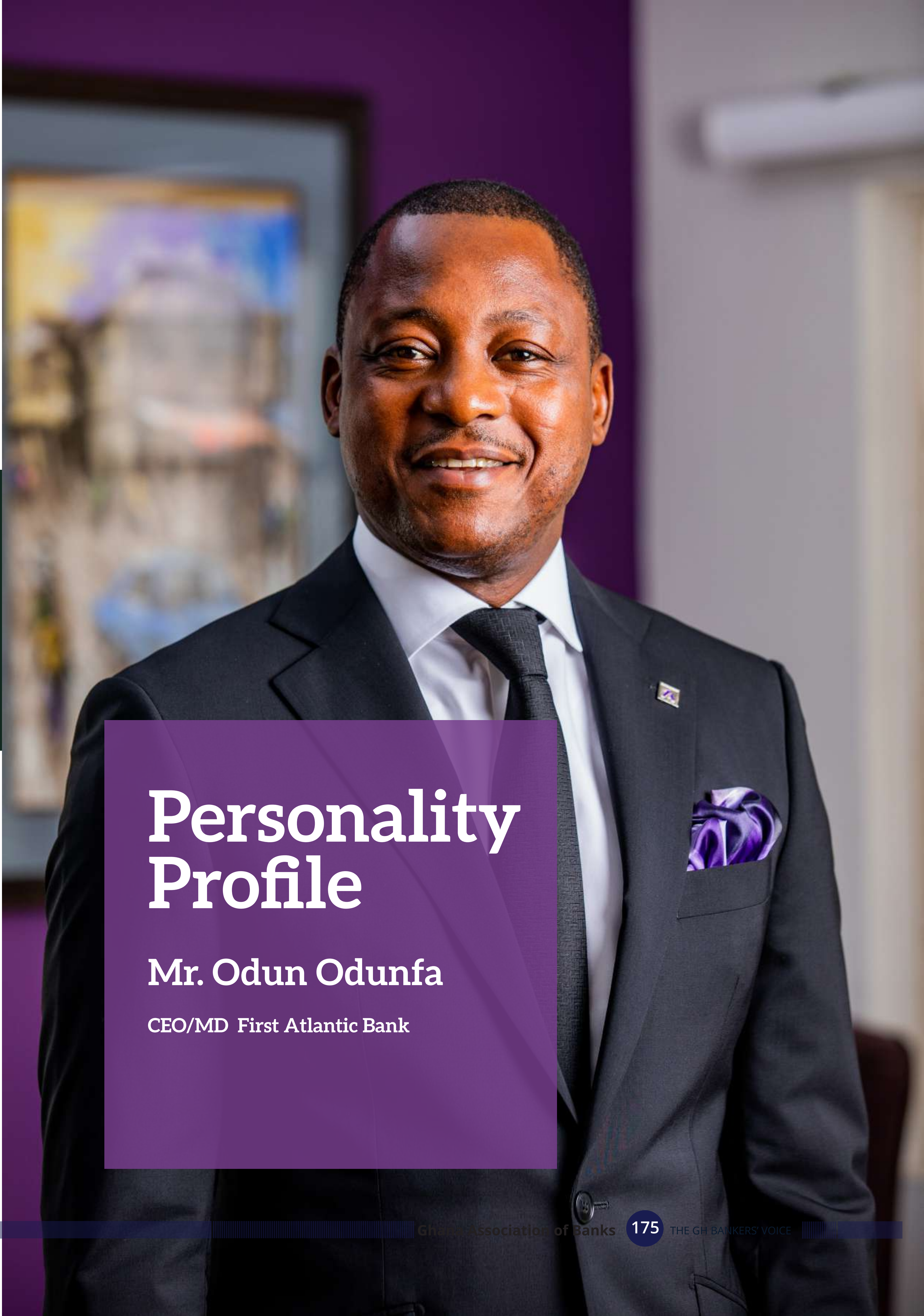
Championing gender equality in the entrepreneurial sphere, DBG aims to ringfence $17.5 million in loans to PFIs for women-owned or controlled businesses. By directing funds specifically towards female entrepreneurs, DBG is working to break down barriers that have traditionally limited women's access to finance and resources. This targeted support would facilitate creation of more level playing field, empowering women to participate fully in the economy; and contribute to the growth of the country.
Development Bank Ghana stands as beacon of hope and progress, demonstrating firm commitment to fostering sustainable growth, inclusivity; and resilience in the Ghanaian economy. The ambitious goals set forth for 2027 reflect DBG's dedication to addressing the multifaceted challenges faced by the nation, from job creation to environmental responsibility.

DBG's objectives provide roadmap to more prosperous and equitable future for Ghana, as the bank endeavours to create opportunities for women, youth; and businesses that prioritise sustainable practices. As we embark on this transformative journey, it is essential to recognise the power of concerted efforts and collaboration in shaping brighter and more sustainable future for all.

In the years to come, DBG's impact on the Ghanaian economy would undoubtedly serve as testament to the importance of targeted investment; strategic planning; and unwavering commitment to the nation's well-being. As we reflect on the progress achieved thus far; and look ahead to the milestones yet to be reached, let us remember that the pursuit of sustainable development and inclusive growth is a collective responsibility—one that requires the concerted efforts of individuals, businesses and institutions alike.

In summation, the realisation of DBG's vision and its role in the financial ecosystem heavily depends on the collaboration and backing of industry connoisseurs; visionaries; and diverse stakeholders. We appeal to these essential actors to join forces with DBG to construct more robust; resilient; and inclusive financial ecosystem. Through effective collaboration, we can create sustainable economic milieu that benefits all Ghanaians; and contributes to the nation's comprehensive development.

"DBG sets an ambitious target to disburse $430 million in loans, channeling resources towards stimulating the Ghanaian economy. These funds will be allocated to businesses across various sectors, providing them with the necessary capital to invest in growth, innovation; and job creation."



Personality Profile

Mr. Odun Odunfa

CEO/MD First Atlantic Bank

Interview with the CEO/MD of First Atlantic Bank

> **My vision for the bank has always focused on using technology and innovation to reach the unbanked population; while providing convenience for our customers.**

Odun Odunfa
CEO/MD, First Atlantic Bank

1. ***The banking industry remains one of the most competitive industries within the Ghanaian economy. What are the honours, major accomplishments or milestones (if any) achieved in prior and recent years?***

As a major player in the Ghanaian banking industry, we have won quite a number of awards in recognition of our contribution to the industry. Notable among these are:

- 2007 - Best Bank Customer Care & Short-Term Loan Financing
- 2008 - Best Bank Trade Finance & Corporate Banking
- 2009 - Best Bank Customer Care & Long-Term Loan Financing
- 2010 - Best Bank Medium-Term Loan Financing
- 2012 - Best Bank Customer Care & Advisory Services
- 2013 - Best Bank Enterprise Financing
- 2019 - MTN Momo Emerging Partner Bank with Great Impact
- 2019 - Successfully merged with Energy Bank to expand our banking operations
- 2021 - Customer Satisfaction 5 Star
- 2022 - Ghana Club 100, 36th Best Ghanaian Company
- 2022 - Successful ISO27001 and PCIDSS Certifications

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2. ***Undoubtedly, you remain one of the most successful Stewards of institutions in the Ghanaian banking industry. Kindly share brief on your career background; and foundations or pillars of your remarkable career with readers.***

I have over three decades of experience in banking, specifically in Treasury, Corporate, Investment; and Retail Banking across different banks in West Africa. Before becoming CEO of First Atlantic Bank, I served as CEO/Managing Director at Kedari Capital Ltd. in Nigeria; and held various positions on the First Atlantic Bank's Board of Directors.

Throughout my career, my experience in different segments of banking played significant role in expanding First Atlantic Bank's branch network from 15 branches in 2016 to 35 branches in 2021, despite the challenges posed by the 2017 financial sector crisis; and COVID-19 pandemic. My guidance during these difficult times resulted in FABL's deposits growing from GH¢ 1.2 billion in 2016 to GH¢ 6.1 billion in 2022; and total assets increasing from GH¢ 1.4 billion in 2016 to GH¢ 7.4 billion in 2022. Additionally, the level of Non-Performing Loans (NPLs) reduced from 41% in 2016 to 12% in 2022, which was below the industry's average of 14.8% during the period.

My vision for the bank has always focused on using technology and innovation to reach the unbanked population; while providing convenience for our customers. This guiding principle earned FABL the prestigious 2019 MTN Momo Emerging Partner Bank with Great Impact award.

Under my leadership, FABL also achieved the Payment Card Industry Data Security Standard certification in 2016; and successfully merged with Energy Bank in 2019. In recognition of these achievements, I was awarded Outstanding Bank CEO for 2018 at the 9th Ghana Entrepreneurs & Corporate Executives Awards in 2019.

3. Most institutions in the banking industry are noted for their strong commitment towards corporate social responsibility (CSR). What are some of your bank's unique charity or community development initiatives that you would like to highlight?

Over the past five years, First Atlantic Bank has demonstrated exceptional commitment to the Ghanaian community, with strong emphasis on supporting the Sustainable Development Goals (SDGs) set by the United Nations (UN). Our Corporate Social Responsibility (CSR) initiatives have focused on health and education for women and children, extending beyond the boundaries of our operations. This has resulted in the execution of several projects, including:

- Renovation and construction of new classroom blocks for the Abua D/A Primary School in Pru-West District, Bono East Region, in 2022.
- Construction and furnishing of a waiting area known as the Atlantic Lounge for the Korle Bu Teaching Hospital in Accra in 2021.
- Construction and (full) furnishing of a Unit Classroom Block for the Cape Coast School for the Deaf and Blind in 2019.
- Establishment of new Mother and Baby Unit for the Talensi District Hospital in 2018. The Mother and Baby unit played a critical role in supporting the Upper East Regional Hospital during the COVID-19 outbreak.

"FAB is a socially responsible employer. To this end, ESG issues are assessed in the bank's credit process; and projects are evaluated for their impact on the environment."

4. How would you assess FIRST ATLANTIC BANK's position and commitment to Green Financing or any of the Environmental, Social and Governance (ESG) issues?

First Atlantic Bank is committed to implementing sustainable banking principles; and has integrated ESG policies into every facet of its operations. The bank has adopted energy-saving measures, such as using fuel-efficient vehicles; and this is driving automation and digital products to reduce their carbon footprint.

FAB is a socially responsible employer, promoting diversity and inclusion in the workforce; maintaining supportive environment for young parents; and ensuring partners and suppliers comply with labour laws. ESG issues are assessed in the bank's credit process; and projects are evaluated for their impact on the environment. FAB has embarked on major social interventions that support community development; and raises awareness of ESG issues among stakeholders through continuous education.

5. What, in your opinion, are some opportunities created by the global and local economic challenges for the banking industry?

- COVID-19 has raised the stakes around digital access and engagement, reinforcing the need for connectivity; and use of digital technologies.
- The current economic crisis has underscored the importance of diversifying revenue streams for commercial banks.
- Fintechs are increasingly disrupting the traditional banking industry; and the economic crisis presents an opportunity for commercial banks to collaborate with Fintechs.
- With increased competition in the banking industry, commercial banks can differentiate themselves by focusing on delivering exceptional customer experience.

6. What are the roles of ethics and technological transformation in the overall success of FIRST ATLANTIC BANK?

First Atlantic Bank has developed

code of business ethics and principles to provide clear directions to employees. The code is aligned with the usual requirements of transparency, social accountability and international business principles countering bribery. It is intended to serve as guide towards making the "right choice;" and therefore, covers areas such as "integrity," "conflicts of interest," "confidentiality and secrecy."

Technology is used to enhance ethics by deploying and conducting training online. The Bank has also developed a procedure to deal with grievances promptly and fairly. First Atlantic Bank has adopted technology to track behaviours and processes; assess process and resolution of complaints; and create more cohesive digital customer journey.

Self-service platforms such as mobile apps and internet banking are also available, aiming to fully digitise the bank by 2028. Grievances are treated confidentially; reprisals against complainants are not tolerated.

7. What are the thoughts you would like to share on the significance of customer experience in the banking industry?

The growth and success of a bank is dependent on its ability to provide superior customer experience; and cultivate customer-centric culture. Over the years, customers' expectations in the banking industry have evolved from basic services to more personalised experience that offers guidance, insights and relevant recommendations. It is crucial for every strategic approach to meet these evolving demands.

With customers' expectations changing daily as well as their desire for frictionless and instant access, banks must consistently keep up with the latest trends; and pour significant resources into transforming their customers' experience. While positive results are not always guaranteed, banks must strive to continuously improve.

Delivering on new customer expectations is a challenge for all financial institutions. However, with the right technology, tools and culture, providing superior customer experience can become effortless, thereby creating strong reputation and remaining competitive. Regardless of location, customers expect their banks to create an experience that meets their needs; builds trust; provides personalised

services; and exceeds their expectations.

At First Atlantic Bank, for instance, our "Purple Experience" mantra is our promise to provide customers with hassle-free and convenient banking experience that is both fun and professional. Our signature purple colour represents nobility; and we aim to offer tailor-made banking products and services that provide our customers with absolute financial peace of mind.

8. Institutions in the banking industry are noted for setting number of objectives and targets for each financial year. What is the most important objective that you expect FIRST ATLANTIC BANK would have accomplished in the next three years? Why do you prioritise this objective over others?

First Atlantic Bank (FAB) has embarked on a 3-year transformation strategy aimed at achieving significant improvements in revenue; cost management; and customer experience through digital innovation. Key components of this strategy include leveraging innovative technologies to provide

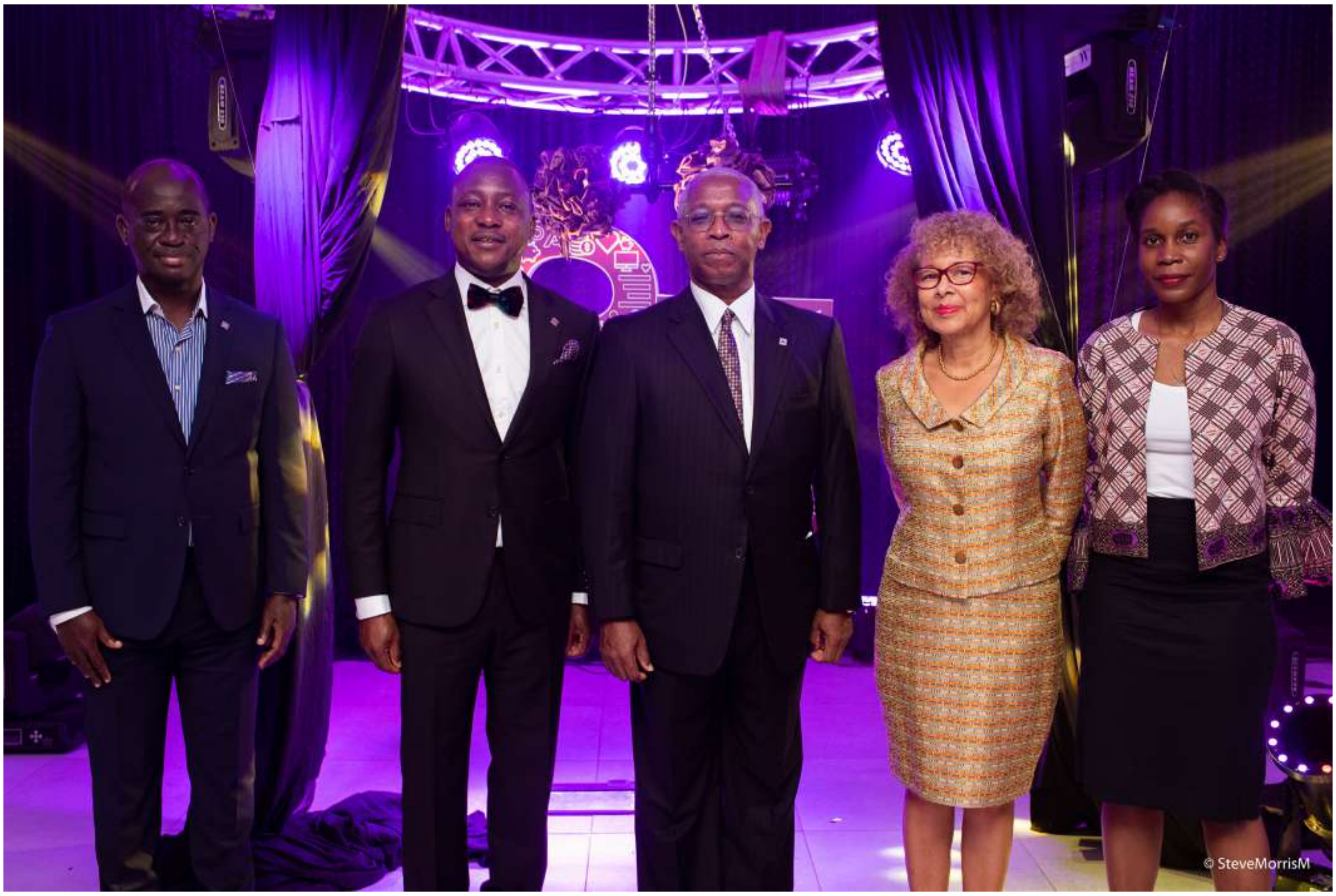
customer-centric solutions that increase engagement through mobile devices; proactively create diverse range of digital products and services; and facilitate self-service and on-demand distribution channels. By embracing these digital transformation initiatives, FAB is positioning itself as modern and agile financial institution that meets the ever-evolving needs of its customers.

"Cash is King, serves as a reminder that liquidity should be the most critical element for every bank; even if it has negative impact on the bottom line."

9. As the Managing Director (MD) of FIRST ATLANTIC BANK, how would you describe the impact of the Domestic Debt Exchange (DDE) programme on the industry? How might the industry change or evolve?

The industry has shown resilience in dealing with the COVID-19 pandemic, with some banks posting strong profit numbers in 2020 and 2021; and declaring good dividends.

However, despite strong initial capital position, DDE has eroded the buffers; while the risk to financial system stability has been heightened. The debt restructuring operation has eroded the profits of many banks; reduced their balance sheet sizes for the 2022 financial year; and significantly affected capital adequacy. Without the relief from the Bank of Ghana in spreading the losses associated with DDE over 4 years, some banks would have fallen below the regulatory



limit of 10%; and therefore, required recapitalisation.

Going forward, banks may have to refocus on lending as per their original mandate with increased attention to credit risk analysis; revise their Risk Management Framework to monitor closely investments in sovereign debts; and there should be continuous plan at building capital buffers to withstand any future shocks.

10. What are the probable lessons and experiences that banks could learn from the Domestic Debt Exchange?

The Ghanaian debt exchange provides valuable lessons for banks in terms of portfolio diversification; collaboration with regulators; planning for contingencies; and profitability with prudence.

Again, the phrase, "Cash is King," serves as a reminder that liquidity should be the most critical element for every bank; even if it has negative impact on the bottom line. By adopting these strategies, banks can effectively manage their debt obligations; reduce their exposure to risk; and improve their overall financial performance.

11. What is your favourite motivational or inspirational quotation; or guiding principle?

The Man In the Arena
"It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming; but who does actually strive to do the deeds; who knows great enthusiasms, the great devotions; who spends himself in a worthy

cause; who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat."
- Theodore Roosevelt (1910)

12. It is often said, behind every successful organisation is strong and effective leadership. How would you describe leadership; what is your practical approach to this concept?

I ascribe to the mix-bag of people and task-oriented leadership; I always focus on building relationships; and making my team feel valued and motivated at work. My approach has always been summed up in Richard Branson's quote: "Take care of your employees, and they will take care of your business."

When employees are well motivated; continuously mentored and given the opportunity to do more, they always perform to the best of their abilities. It is always imperative to have clear plan; and ensure it is adequately communicated and understood, so implementation becomes easy. To wit, strategy is key.

Additionally, as a company, the objective is to accomplish assignments that foster growth and expansion. Therefore, it is crucial to adopt task-oriented approach in leading your team to attain the organisation's vision and mission.

13. What additional information or advice would you like to share with fellow professionals and other readers?

As an industry, we must go back to first principles; and ensure we follow basic banking principles, which have not really changed in 2000 years. We must earn the confidence of the public by honouring our commitments; and doing the simple things well. As people, we should also understand that hard work and integrity are important... the countries that we look up to as role models have earned their place by focusing on production and integrity. We have to do same; and focus less on seeking "rent" as means to success.

Thank you!

Industry Outlook

Industry Outlook: Emerging from the Throes of DDEP with Resilient Performance

Dr. Ebenezer Ashley
Executive Head, Research, Media, Business Intelligence & Market Conduct, GAB

Overview of the Macroeconomic Environment

After surviving the shocks of COVID-19 from 2020 through 2021, overall performance of the Ghanaian economy during 2022 remained below the expectations of many analysts. The economy was debt-ridden; saddled with challenges to payment of creditors; and rated junk by major global credit rating agencies such as Standard and Poor's (S&P), Moody's and Fitch.

Macroeconomic indicators for fiscal year-end 2022 revealed overall real growth in gross domestic product (GDP) of 3.1%; which was lower than the non-oil real GDP growth (3.8%) during the period. The overall real GDP growth (3.1%) and non-oil real GDP growth (3.8%) were lower than their respective revised targets for 2022 (3.7% and 4.3%). Inflation at the end of December was 54.1%. High inflationary level in 2022 was driven largely by the lagged effects of volatilities inherent in the local currency; as significant surge in non-food and food inflation was recorded during the review period.

Total revenue and grants (GH¢96.7 billion) were equivalent to 15.8% of GDP; while total expenditure on commitment basis (GH¢165.1 billion) represented 27% of GDP; and 70.73% more than government's total revenue and grants in 2022. However, the total revenue and grants (GH¢96.7 billion) fell short of the revised target (GH¢96.84 billion, 16.4% of GDP); while total expenditure on commitment basis (GH¢165.1 billion) exceeded the revised target (GH¢133.8 billion, 22% of GDP) by GH¢31.3 billion or 23.39%.

The Ghanaian economy ended 2022 fiscal year with overall budget deficit on commitment basis of 11.8% of GDP, which was more than 1.87 times the revised target (6.3% of GDP). The primary balance on commitment basis was a deficit of 4.3% of GDP; and this was far in excess of the revised deficit target of 0.7% of GDP (over 6 times). Gross international reserves were equivalent to 2.7 months of import cover, slightly less than the "minimum standard" of 3 months import cover.

The overall budget deficit on cash basis at year-end 2022 was 10.7% of GDP relative to revised deficit target of 6.6% of GDP. Similarly, on cash basis, primary balance was a deficit of 3.2% of GDP. Again, this exceeded the revised surplus target of 0.4% of GDP. Government's commitment to debt restructuring coupled with shocks from COVID-19 and the

Russia-Ukraine war reflected and accelerated unfavourable epochal change to Ghana's economic order. Indeed, the crises impacted severely on the resilience and stability of the country's economic system.

Cascading effects of the foregoing economic challenges on the banking industry were enormous; the industry was not spared the brunt of both the internal and external shocks that the Ghanaian economy had to contend with in 2022. Government's challenges to effective generation of revenues and meeting set revenue targets coupled with accelerated inflationary level precipitated significant level of macroeconomic instability, with total debt rising sharply to unsustainable levels. As part of deliberate measures to subdue inflation to appreciable level, Bank of Ghana, through the Monetary Policy Committee, increased the policy rate by 1250 basis points (that is, from 14.5% during 2021 to 27% in 2022) in 2022.

However, the preceding strategy had minimal positive impact on the economy; as transport fares, food and energy prices kept skyrocketing; while government and businesses had to grapple with local currency (Ghana cedi) volatilities during the review period.

Industry's Challenges in 2022

In spite of the macroeconomic headwinds, profitability and resilience of the banking industry from the first through the third quarters in 2022 remained unquestionable. Published financial statements of most universal banks during Q3 of 2022 showed impressive performance; the analysis revealed the industry was on profit-deriving trajectory. Year-on-year industry analysis during Q3 of 2022 depicted respective increases in industry loans and advances to customers; total deposits by customers; total operating income; and profit-after-tax of 47.97%; 31.26%; 23.71%; and 18.83%.

Growth in the industry's total deposits was sustained; and this reflected in robust growth in total assets during 2022 (GH¢209.02 billion) relative to 2021 (GH¢175.86 billion). This gain notwithstanding, capital levels decreased from GH¢26.49 billion in 2021 to GH¢20.57 billion during 2022. Further, the industry witnessed a surge in the non-performing loans (NPLs) ratio; while stability, resilience and capacity of the industry to absorb risks and enhance financial intermediation were tested by the banks' performance. The sustained growth in deposits reasonably explained customers' trust in the banking industry as huge potential for asset transmogrification for the financial sector.

However, narrative of the industry's performance in the last quarter of 2022 was a shift in paradigm from the preceding three quarters (Q1 through Q3); government's declaration of its intention to engage the International Monetary Fund (IMF)

in imminent talks on restructuring of the country's debt; and towards securing credit facility; and subsequent implementation of same, especially the domestic debt exchange programme (DDEP), impacted severely on the industry's performance and assets; significant impairment losses (over GH¢19.23 billion) were recorded in 2022 comparative to 2021 (GH¢1.43 billion).

Nonetheless, institutions in the banking industry understood and appreciated the exigency; and further made a difficult decision to accept the challenge to collaborate with the government to restore fundamental stability of the economy; a major prerequisite for continuous survival of all institutions in both the public and private sectors. Banks in the industry ended 2022 financial year with loss-after-tax of GH6.02 billion relative to profit-after-tax of GH¢4.99 billion during 2021.

Industry's First Quarter Performance - 2023

During the last quarter of 2022, banks in the industry defied all odds and demonstrated strong commitment towards the cause of the country for strategic solutions to the economic crises. The banks remained steadfast and commenced the 2023 financial year in earnest. Prudential financial data released by most of the universal banks in the country during the first quarter of 2023 depicted strong, robust and scintillating performance of the industry comparative to Q4 of 2022.

The industry's balance sheet in the first quarter of 2023 depicted impressive performance relative to the fourth quarter in 2022. This fairly reflected robust growth in total assets, which were integrally funded by sustained growth in deposits and increased capital levels. Performance of the industry's income statement during the period under review was very strong; the surge in profit after tax (PAT) remained quite encouraging; and this was attributed to the considerable growth in revenues relative to operating expenses. Financial intermediation was enhanced by the boost in private sector credit, which increased from approximately GH¢47.07 billion during 2022 to GH¢50.51 billion in 2023 Q1, representing 7.31% increase during the period.

The industry's soundness and resistance to vulnerabilities inherent in the broader financial system and economy manifested in the strong performance of key indicators such as asset quality, liquidity, non-performing loans (NPLs), capital adequacy ratio (CAR), return on equity (ROE) and sensitivity to market risk. Generally, the soundness of these key indicators is positively linked to significant improvement in the performance of the industry's profitability and balance sheet. Further, it points to an industry that is characteristically resilient and stable, with the capacity to absorb shocks; while deepening financial intermediation.

Capital adequacy ratio recorded by the industry during Q1 of 2023 exceeded 21.96%. This ratio was in excess of the regulatory requirement of the Bank of Ghana as at December 2022 (16.60%); and more than twice the minimum capital adequacy ratio (8%) and

capital conservation buffer (2.5%) requirements under Basel III (10.5%). CAR reflects better capital-to-risk-weighted-assets ratio; and resonates strong capitalisation and improved financial resilience of institutions within the banking industry. Due to the industry's strong capital position, the higher capital adequacy ratio suggests, in the event of any credit risk concentration shocks, banks would still maintain capital adequacy ratios above the minimum regulatory capital requirement.

The industry's overall financial condition was exemplified in the quality of banks' assets anchored by the quality of loan and investment portfolios; and efficient credit administration programmes. The foregoing was indicative of strong risk mitigation measures for capital and loan formation; and indicative of financial stability of the banking industry. The average return on equity for 2023 Q1 indicated how banks in the industry were efficiently and effectively generating profits from the investments of shareholders. Liquidity coverage ratio (LCR) of the industry during the period under review remained over 92.98%. This affirmed the availability of high-quality liquid assets to fund short-term cash outflows. The relatively high liquidity ratio (over 92.98%) was indicative of the banks' preparedness for potential market-wide shocks to avert any short-term liquidity disruptions that may cause market upset.

Indicators of the industry's profitability such as profit-before-tax (PBT), profit-after-tax (PAT), return on assets (ROA), return on equity (ROE), earning assets and net interest income, amongst others, showed significant improvement and high level of operational efficiency during the first quarter of 2023 relative to year-end, December 2022. Generally, investors perceive return on equity as a better metric for effective assessment of the market value and growth of institutions in the banking industry. The incredulous performance of the industry, including comparatively high return on equity during Q1 of 2023 was envisaged to be sustained throughout the current financial year and beyond. This growth potential is expected to serve as unique attractive tool for investors to the banking industry to shore up capital and investment in the financial sector; and attract investments to the broader economy.

Further, the high capital adequacy ratio (in excess of 21.96%), sustained non-performing loans ratio (15.92%) and improved net worth attested to the solvency of banks in the current financial year. The quality of industry's assets was expected to witness further improvements as banks strengthen credit risk assessment while creating more loans and expanding their loan books; and intensify their loan recovery efforts. The financial posture of the banking industry at end of 2023 Q1 was one that is robust and averse to credit concentration shocks.

Performance During Half-Year - 2023

Data released by the universal banks in the country during the second quarter (Q2) of 2023 affirmed stronger industry performance relative to the second quarter (Q2) of 2022. Reliable financial data released by the banks during the first-half of 2023 attested to the accelerated pace of the industry's recovery from the shackles of the domestic debt exchange programme implemented by the government. Indeed, the industry demonstrated its resilience and robustness during the period under review.
The industry's aggregate balance sheet during 2023 Q2 depicted

impressive performance comparative to Q2 of 2022. The GH¢242.4 billion recorded in Q2 of 2023 fairly reflected robust growth in total assets, which were generally funded by sustained growth in deposits and increased capital levels. The significant boost in total deposits (43% growth during the comparative period) was an ample manifestation of the benefits that banks could derive from strong financial literacy campaign. The year-on-year growth in the industry's total assets (between 2022 Q2 and Q2 of 2023) was estimated at 21.20%. Financial intermediation was enhanced by the boost in total advances, which increased from approximately GH¢63.4 billion during Q2 of 2022 to GH¢73.1 billion during 2023 Q2, representing 15.30% growth during the period.

The industry's soundness and resistance to vulnerabilities inherent in the larger financial system during 2023 Q2 manifested in the strong performance of key indicators such as core liquid assets to total assets; and core liquid assets to short-term liabilities. The industry's core liquid assets to total assets ratio surged to 27.70% in Q2 of 2023, from 23.40% during 2022 Q2. The industry's performance in the foregoing indicator was not quite distinct in the analysis of the core liquid assets to short-term liabilities ratio; the 33.40% recorded during Q2 of 2023 was superior to the 30.20% recorded in 2022 Q2.

Soundness of the foregoing key indicators is positively linked to significant improvement in the performance of the industry's profitability and balance sheet; and points to an industry that is characteristically resilient and stable, with the capacity to absorb shocks; while deepening financial intermediation and inclusion in the immediate-, medium- and long-term.

Cascading effects of the government's debt restructuring programme on the wider economy reflected on the industry's high non-performing loans' (NPLs') ratio in Q2 of 2023 (18.70%) comparative to 2022 Q2 (14.10%). Even when the loss category is excluded, the NPL ratio for 2023 Q2 (7.80%) remained higher than the ratio for Q2 of 2022 (3.80%). The implication is conscious efforts of government towards practical implementation of programmes that would enhance economic stimulation are needed to stem the tide of loan defaults. The foregoing would complement the risk management strategies of banks for recovery; and increased liquidity.

The industry's capital adequacy ratio in Q2 of 2023 (14.30%) was a far-cry of the ratio recorded during 2022 Q2 (19.40%). Although the ratio for 2023 Q2 (14.30%) fell short of the Bank of Ghana's regulatory requirement of 16.60% (as at December 2022); it was in excess of the minimum capital adequacy ratio (8%) and capital conservation buffer (2.5%) requirements under Basel III (10.5%).

Recall, the capital adequacy ratio reflects better capital-to-risk-weighted-assets ratio; and resonates strong capitalisation and improved financial resilience of institutions within the banking industry. Due to the industry's strong capital position, the capital adequacy ratio suggests, in the event of any credit risk concentration shocks, banks would still maintain capital adequacy ratios above the minimum regulatory capital requirement under Basel II and III.

Performance of the industry's income statement during the period under review was very strong; the reduction in total cost to gross income ratio (from 79.20% during Q2 of 2022 to 78.70% in 2023 Q2) was quite encouraging. Similarly, the marginal decrease in operational cost to gross income ratio to 52.8% in Q2 of 2023, from 53.9% during 2022 Q2; and sharp rise in net interest margin (from 10.10% during 2022 Q2 to 13.40% in Q2 of 2023) were refreshing.

These developments were indicative of the (positive) strategic measures rolled-out by the banks to control cost; while maximising revenues and profits to achieve organisational targets and objectives. Overall, the industry's strategies ensured considerable growth in revenues relative to operating expenses during the first-half of 2023.

The general financial condition of the industry is exemplified in the quality of banks' assets anchored by the quality of loan and investment portfolios; and efficient credit administration programmes. The foregoing is indicative of strong risk mitigation measures for capital and loan formation; and indicative of financial stability of the banking industry. The average return on equity ratio for Q2 of 2023 (37.6%) was in excess of the ratio for 2022 Q2 (21.9%); and indicative of how banks in the industry are efficiently and effectively generating profits from the investments of shareholders.

The industry's return on assets (before tax) witnessed marginal increase during the period under review (from 4.60% during Q2 of 2022 to 5.50% in 2023 Q2). The higher ratio attests to the productiveness and efficiency of the banks in the management of their respective balance sheets to ensure consistent and effective profit generation.
Core liquidity ratios of the industry during the period under review remained strong. This affirmed the availability of high-quality liquid assets to fund short-term cash outflows. The relatively high liquidity ratio in Q2 of 2023 comparative to 2022 Q2 buttressed the banks' preparedness for potential market-wide shocks to avert any short-term liquidity disruptions that may plague the market.

Indicators of the industry's profitability such as return on assets, return on equity and net interest margin, among others, showed significant improvement and high level of operational efficiency during 2023 Q2 relative to Q2 of 2022. As noted earlier, investors perceive return on equity as a better metric for effective assessment of the market value and growth of institutions in the banking industry.

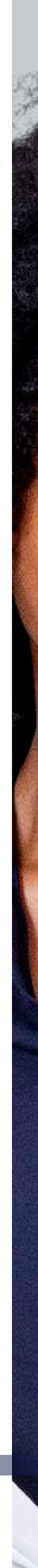
The impeccable performance of the industry (including comparatively high ROE) during 2023 Q2 is envisaged to be sustained through the second half of the current financial and beyond. This growth potential is expected to serve as unique attractive tool for investors to the banking industry to shore up capital and investment in the financial sector; and attract investors to other sectors within the larger Ghanaian economy. Collaborative efforts of the Bank of Ghana, National Cyber Security Authority (CSA), Ghana Association of Banks and universal banks towards instituting measures to mitigate the effects of cyberattacks on critical infrastructure is worth-commending.

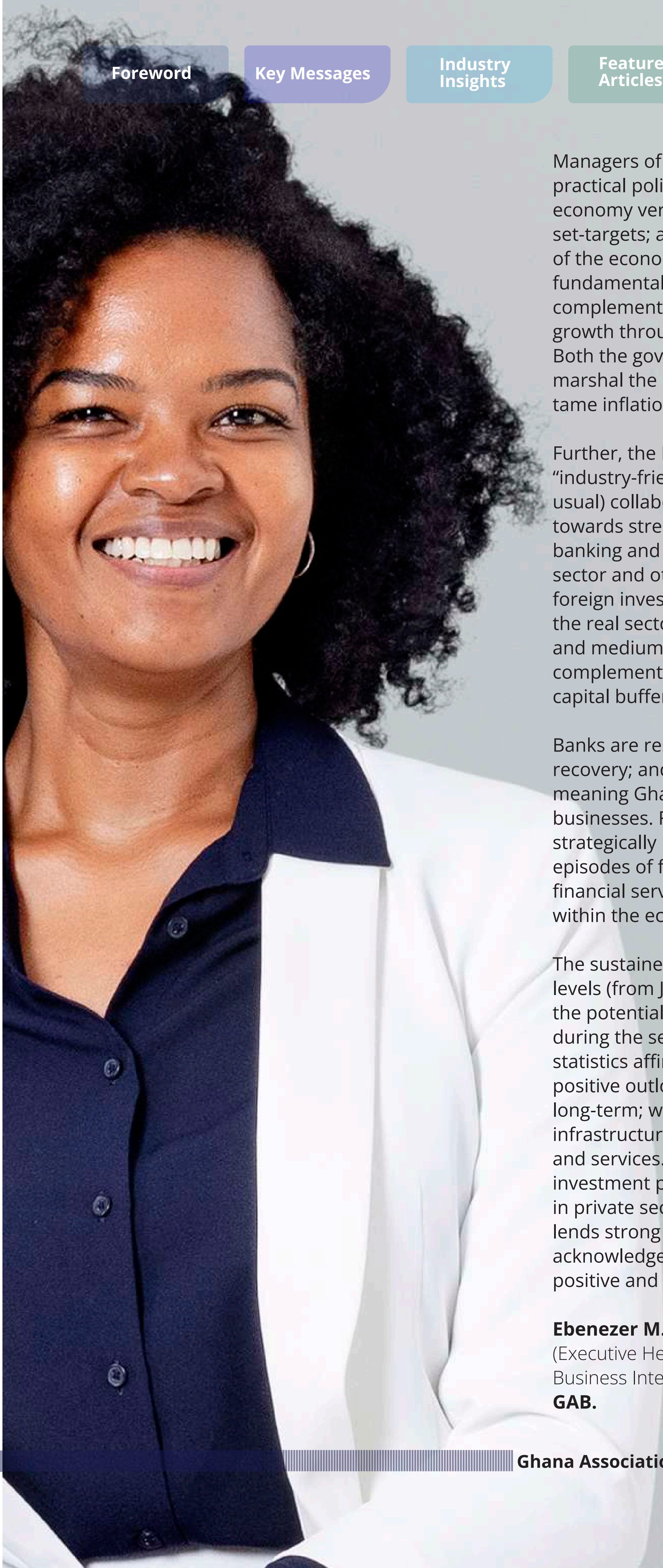
"Banks are strategically positioned to better withstand potential episodes of financial stress; while providing improved financial services to customers."

Way Forward

The proactive steps taken by banks to strengthen their risk management practices and internal control mechanisms are quite encouraging. Some positive effects of these initiatives are strategic positioning of the industry towards containment and mitigation of potential solvency challenges that may emanate from loan concentration. Banks within the industry are mindful of their critical role in preserving stability of the country's financial system; and are therefore, consistently dialoguing and collaborating with the Bank of Ghana (BoG), Ministry of Finance (MoF), Securities and Exchange Commission (SEC); and other key stakeholders to ensure sustained stability of the banking industry.

A sharp decline in inflation from the recent 42.5% to the revised target 18.9% at the end of 2023 is envisaged to minimise inflationary threats; ensure price stability; and reduce the adverse impact of external supply chain disruptions (including demand pressures and supply shocks) on the economy. The government's macroeconomic targets for 2023 include non-oil real GDP growth of 3%; overall real GDP growth of 2.8%; gross international reserves to cover at least 3.3 months of imports; and overall budget deficit on commitment basis of 5.9% of GDP, amongst other pertinent indicators.





Managers of the economy are expected to roll-out practical policies and measures that would inch the economy very close to achievement of the above set-targets; and assure resilience and robustness of the economic fundamentals. Quite importantly, fundamental economic stability is needed to complement the banks' efforts at supporting national growth through increased lending to the private sector. Both the government and Regulator are expected to marshal the necessary practical policy measures to tame inflation without stifling growth.

Further, the Bank of Ghana is expected to introduce "industry-friendly" policies; issue directives; and (as usual) collaborate with institutions within the industry towards strengthening and enhancing resilience of the banking and financial system; renewing the financial sector and other sectors' attraction to both local and foreign investors; ensuring economic stimulation in the real sector through increased lending to small- and medium-sized enterprises (SMEs); and towards complementing the efforts of banks at rebuilding capital buffers.

Banks are responding positively to the economic recovery; and ready to transact business with well-meaning Ghanaians - individuals, households and businesses. Further, banks in the industry are strategically positioned to better withstand potential episodes of financial stress; while providing improved financial services to existing clients and prospects within the economy.

The sustained growth in deposits and higher capital levels (from January 2023 through June 2023) speak to the potential for financial deepening and credit growth during the second-half of 2023; and beyond. Available statistics affirmed the banking industry projects positive outlook in the immediate-, medium- and long-term; with strong emphasis on robust underlying infrastructure for core and digital banking products and services. Banks are already diversifying their investment portfolios to reflect greater concentration in private sector lending and investment. This lends strong credence to banks' recognition and acknowledgement of the private sector as the engine of positive and sustained economic growth.

Ebenezer M. Ashley (PhD.)
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Glossary of Key Terms

Capital adequacy ratio
Is the ratio of adjusted equity base to risk-adjusted asset base as required by the Bank of Ghana (BoG); and recommended by Basel II and III

Cash assets
Include cash on hand, balances with the central bank; money at call or short notice; and cheques in course of collection and clearing

Cost income ratio
Non-interest operating expenses/ Operating income

Financial leverage ratio
Total assets/ common equity

Liquid assets
Include cash assets and assets that are relatively easier to convert to cash, e.g., investments in government securities; quoted and unquoted debt and equity investments; equity investments in subsidiaries; and associated companies

Loan loss provisions
(General and specific provisions for bad debts + Interest in suspense)/ Gross loans and advances

Loan portfolio profitability
(Interest income attributable to advances - Provisions for bad and doubtful loans)/ Net loans and advances

Loan loss rate: Bad debt provisions/ Average operating assets

Net book value per share: Total shareholder's funds/ Number of ordinary shares outstanding

Net interest income: Total interest income - Total interest expense

Net interest margin: Net interest income/ Average operating assets

Net operating income
Total operating income – Total non-interest operating expenses + Depreciation and amortisation - Loan loss adjustment + Exceptional credits.

Net operating (or intermediation) margin
[(Total interest income + Total non-interest operating revenue)/ Total operating assets] - [Total interest expense/ Total interest-bearing liabilities]

Net profit before tax
Total Operating Income - Total Operating Expenses

Net spread
(Interest income from advances/ Net loans and advances) - (Interest expense on deposits/ Total deposits)

Non-interest operating expenses
Include employee related expenses; occupancy charges or rent; depreciation and amortisation; directors' emoluments; fees for professional advice and services; publicity and marketing expenses

Non-interest operating revenue
Includes commissions and fees; profit on exchange; dividends from investments and other non-interest investment income; and bank and service charges

Non-operating assets
Comprise net book value of fixed assets (e.g., landed property, information technology infrastructure, furniture and equipment, vehicles); and other assets, including prepayments, sundry debtors and accounts receivable

Operating assets
Include cash and liquid assets; loans and advances; and any other asset that directly generates interest or fee income

Profit after tax margin
Profit after tax/ Total operating income

Profit before tax margin
Profit after extraordinary items but before tax/ Total operating income

Quick (acid test) ratio
(Total cash assets + Total liquid assets)/ (Total liabilities - Long term borrowings)

Return on assets
Profit after tax/ Average total assets

Return on equity
Profit after tax/ Average total shareholders' funds

Shareholders' funds
Comprise paid-up stated capital; income surplus; statutory reserves; and capital surplus or revaluation reserves

Solvency
[(Net Interest Income + Depreciation) / Total Liabilities]

Total assets
Total operating assets + Total non-operating assets

Total debt ratio
Total liabilities/Total assets

Abbreviations

ABSA	ABSA Bank Ghana Limited
ADB	Agricultural Development Bank Limited
AfCFTA	African Continental Free Trade Area
AI	Artificial Intelligence
AML/CFT	Anti-Money Laundering/Countering of the Financing of Terrorism
ATM	Automated Teller Machine
BDCs	Bulk Distribution Companies
BOA	Bank of Africa Ghana Limited
BoD	Board of Directors
BoG	Bank of Ghana
CAL	CalBank Limited
CAR	Capital Adequacy Ratio
CAGR	Compound Annual Growth Rate
CBDCs	Central Bank Digital Currencies
CBG	Consolidated Bank Ghana Limited
CBN	Central Bank of Nigeria
CPF	Country Partnership Framework
CSR	Corporate Social Responsibility
DBG	Development Bank Ghana
DDEP	Domestic Debt Exchange Programme
DeFi	Decentralised Finance
DMB	Domestic Money Banks
DPC	Data Protection Commission
ECF	Extended Credit Facility
ECL	Expected Credit Loss
EIB	European Investment Bank
ECB	Energy Commercial Bank Limited
ECB	European Central Bank
ESG	Environmental, Social and Governance
FBN	First Bank of Nigeria
FDATA	Financial Data and Technology Association
FDIs	Foreign Direct Investments
4IR	Fourth Industrial Revolution
FSD	Financial Stability Department
GAB	Ghana Association of Banks
GACH	Ghana Automated Clearing House
GCB	Ghana Commercial Bank
GEPA	Ghana Export Promotion Authority
GETP	Ghana Economic Transformation Project
GFPA	Ghana Fintech and Payment Association

GhIPSS	Ghana Interbank Payment and Settlement Systems
GSE	Ghana Stock Exchange
GSE-FSI	GSE Financial Stock Index
GRI	Global Reporting Initiative
GT Bank	Guarantee Trust Bank
ICAAP	Internal Capital Adequacy Assessment Process
IFC	International Finance Corporation
ILAAP	Internal Liquidity Adequacy Assessment Process
IMF	International Monetary Fund
IoT	Internet of Things
ISS	Integrated Safeguards System
ISSER	Institute of Statistical, Social and Economic Research
ITC	International Trade Centre
KYC	Know Your Customer
LTFC	Long-Term Foreign Currency
MFIs	Microfinance Institutions
MMI	Mobile Money Interoperability
NFC	Near Field Communication
NFIDS	National Financial Inclusion and Development Strategy
NIB	National Investment Bank
NIRP	National Industrial Revitalisation Programme
NPLs	Non Performing Loans
NPRA	National Pensions Regulatory Authority
PETs	Privacy-Enhancing Technologies
PNDC	Provisional National Defence Council
PSPs	Payment Service Providers
RfP	Request for Payment
ROA	Return on Assets
ROE	Return on Equity
SASB	Sustainability Accounting Standards Board
SDIs	Specialised Deposit-Taking Institutions
SEC	Securities and Exchange Commission
SMEs	Small- and Medium-sized Enterprises
SOEs	State-Owned Enterprises
SOL	Single Obligor Limit
SVB	Silicon Valley Bank
UBA	United Bank for Africa

Answers to the Puzzle

1 B	O	2 G	3 C	4 B	A	S	5 E	R	N	6 E	S	T	
A			T							Q			7 S
N			R				8 O		9 D	U	D		E
C		10 J	O	H	11 N		V			I			V
A			N		12 E	X	E	C	U	T	I	V	E
S		13 A			T		R			Y			14 N
15 S	E	V	E	N	T	Y		16 P			17 T	W	18 O
U		C			E			A			O		N
R			19 M	A	Y		20 A	21 T	M		N		E
22 A	D	B				23 O		W		24 D			
N				25 O		U		26 O		27 D	E	B	G
28 C	A	29 R	E	F	E	R	E	30 N	C	E			
E				O				I		31 P	O	32 S	
	33 T	H	I	R	T	34 E	E	N		A		H	
	E			I		X		35 E		Y		E	
	N		36 E			I		T		37 M	A	L	L
38 S		39 Z	E	N	I	40 T	H	R	E	E		L	
Y			A			A		A		N			

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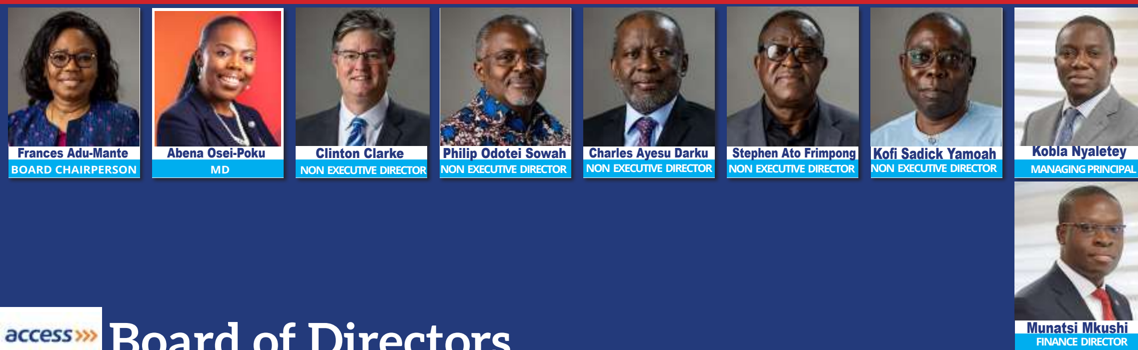
Board of Directors (absa)



- Frances Adu-Mante — BOARD CHAIRPERSON
- Abena Osei-Poku — MD
- Clinton Clarke — NON EXECUTIVE DIRECTOR
- Philip Odotei Sowah — NON EXECUTIVE DIRECTOR
- Charles Ayesu Darku — NON EXECUTIVE DIRECTOR
- Stephen Ato Frimpong — NON EXECUTIVE DIRECTOR
- Kofi Sadick Yamoah — NON EXECUTIVE DIRECTOR
- Kobla Nyaletey — MANAGING PRINCIPAL
- Munatsi Mkushi — FINANCE DIRECTOR

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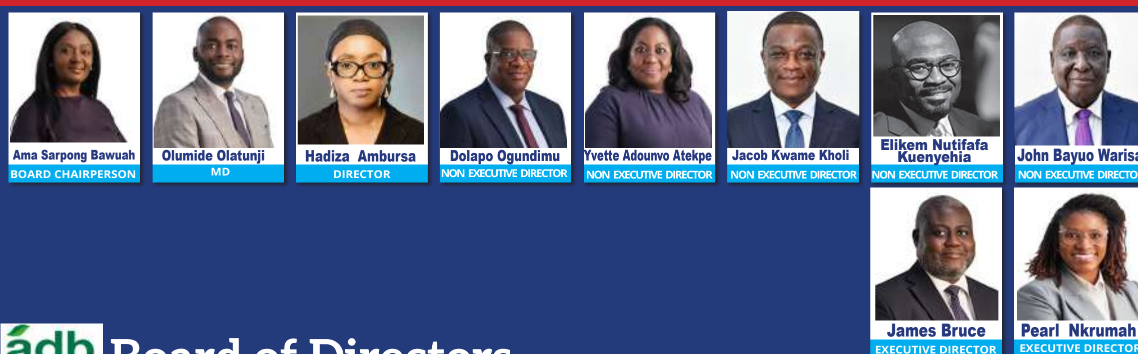
Board of Directors (access)



- Ama Sarpong Bawuah — BOARD CHAIRPERSON
- Olumide Olatunji — MD
- Hadiza Ambursa — DIRECTOR
- Dolapo Ogundimu — NON EXECUTIVE DIRECTOR
- Yvette Adounvo Atekpe — NON EXECUTIVE DIRECTOR
- Jacob Kwame Kholi — NON EXECUTIVE DIRECTOR
- Elikem Nutifafa Kuenyehia — NON EXECUTIVE DIRECTOR
- John Bayuo Warisa — NON EXECUTIVE DIRECTOR
- James Bruce — EXECUTIVE DIRECTOR
- Pearl Nkrumah — EXECUTIVE DIRECTOR

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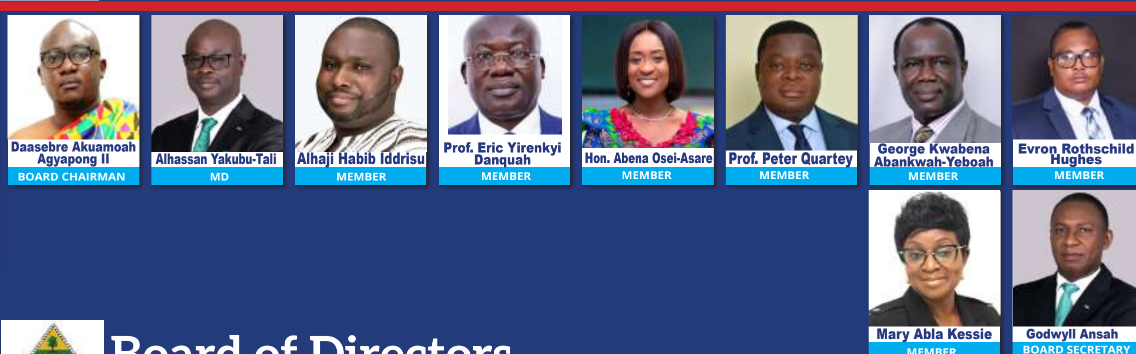
Board of Directors (adb)



- Daasebre Akuamoah Agyapong II — BOARD CHAIRMAN
- Alhassan Yakubu-Tali — MD
- Alhaji Habib Iddrisu — MEMBER
- Prof. Eric Yirenkyi Danquah — MEMBER
- Hon. Abena Osei-Asare — MEMBER
- Prof. Peter Quartey — MEMBER
- George Kwabena Abankwah-Yeboah — MEMBER
- Evron Rothschild Hughes — MEMBER
- Mary Abla Kessie — MEMBER
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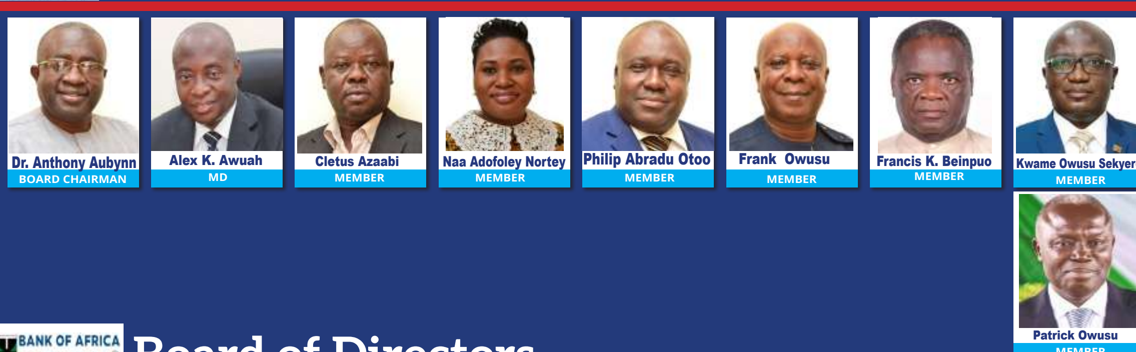
Board of Directors (ARB Apex Bank)



- Dr. Anthony Aubynn — BOARD CHAIRMAN
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- Cletus Azaabi — MEMBER
- Naa Adofoley Nortey — MEMBER
- Philip Abradu Otoo — MEMBER
- Frank Owusu — MEMBER
- Francis K. Beinpuo — MEMBER
- Kwame Owusu Sekyere — MEMBER
- Patrick Owusu — MEMBER

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- Ghali Lahlou — MEMBER
- Elly Ohene-Adu — MEMBER
- Omar Balafrej — MEMBER
- Ali Kettani — MEMBER

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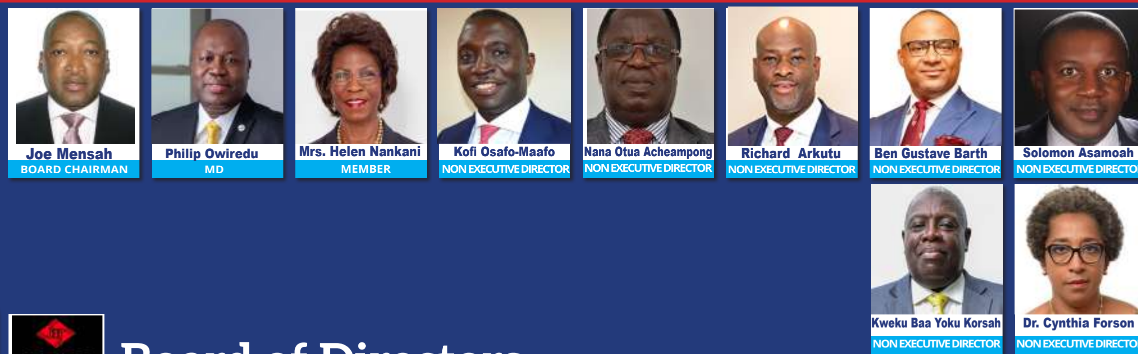
CalBank Board of Directors



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- Philip Owiredu — MD
- Mrs. Helen Nankani — MEMBER
- Kofi Osafo-Maafo — NON EXECUTIVE DIRECTOR
- Nana Otua Acheampong — NON EXECUTIVE DIRECTOR
- Richard Arkutu — NON EXECUTIVE DIRECTOR
- Ben Gustave Barth — NON EXECUTIVE DIRECTOR
- Solomon Asamoah — NON EXECUTIVE DIRECTOR
- Kweku Baa Yoku Korsah — NON EXECUTIVE DIRECTOR
- Dr. Cynthia Forson — NON EXECUTIVE DIRECTOR

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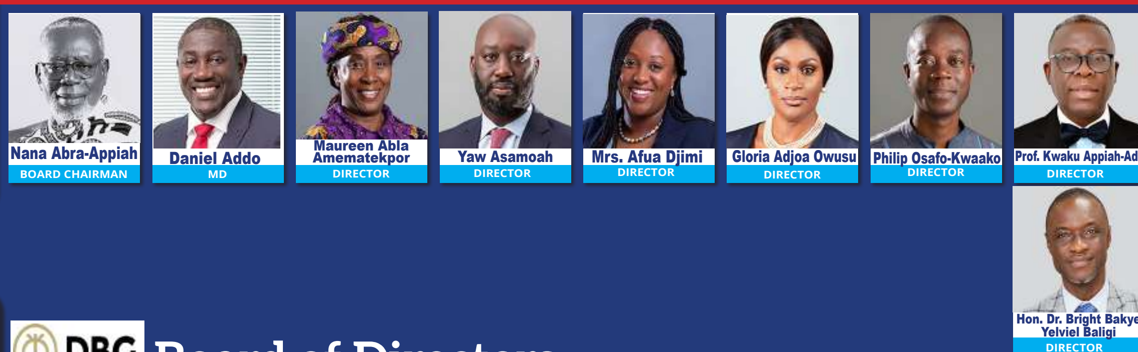
CBG Board of Directors



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- Daniel Addo — MD
- Maureen Abla Amematekpor — DIRECTOR
- Yaw Asamoah — DIRECTOR
- Mrs. Afua Djimi — DIRECTOR
- Gloria Adjoa Owusu — DIRECTOR
- Philip Osafo-Kwaako — DIRECTOR
- Prof. Kwaku Appiah-Adu — DIRECTOR
- Hon. Dr. Bright Bakye Yelviel Baligi — DIRECTOR

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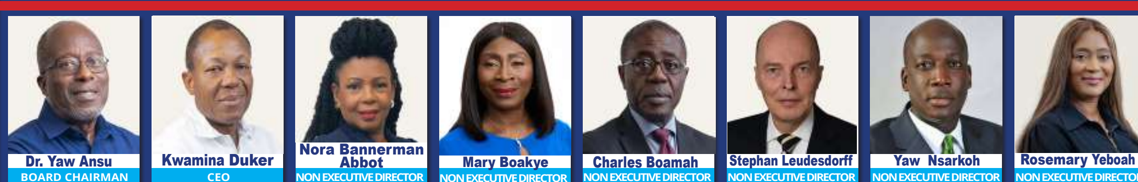
DBG Board of Directors



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- Kwamina Duker — CEO
- Nora Bannerman Abbot — NON EXECUTIVE DIRECTOR
- Mary Boakye — NON EXECUTIVE DIRECTOR
- Charles Boamah — NON EXECUTIVE DIRECTOR
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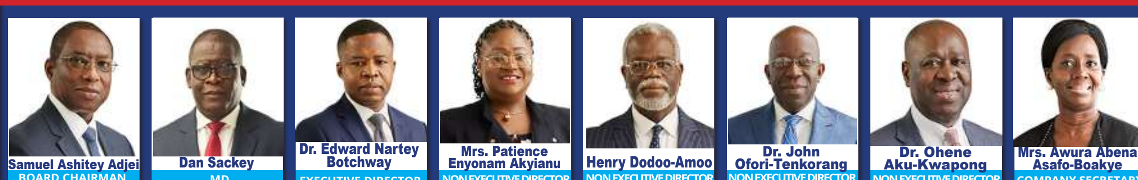
Ecobank The Pan African Bank Board of Directors



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- Dr. Edward Nartey Botchway — EXECUTIVE DIRECTOR
- Mrs. Patience Enyonam Akyianu — NON EXECUTIVE DIRECTOR
- Henry Dodoo-Amoo — NON EXECUTIVE DIRECTOR
- Dr. John Ofori-Tenkorang — NON EXECUTIVE DIRECTOR
- Dr. Ohene Aku-Kwapong — NON EXECUTIVE DIRECTOR
- Mrs. Awura Abena Asafo-Boakye — COMPANY SECRETARY

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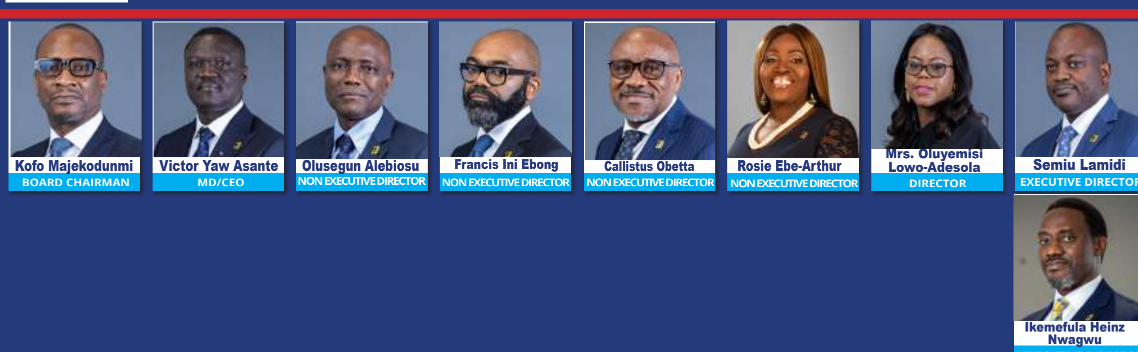
FBNBank Board of Directors



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- Olusegun Alebiosu — NON EXECUTIVE DIRECTOR
- Francis Ini Ebong — NON EXECUTIVE DIRECTOR
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- Rosie Ebe-Arthur — NON EXECUTIVE DIRECTOR
- Mrs. Oluyemisi Lowo-Adesola — DIRECTOR
- Semiu Lamidi — EXECUTIVE DIRECTOR
- Ikemefula Heinz Nwagwu — EXECUTIVE DIRECTOR

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FIDELITY BANK Board of Directors

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Adwoa Nyantakyiwa Annan – NON EXECUTIVE DIRECTOR
Abayomi Theophilus Akinade – NON EXECUTIVE DIRECTOR
Skander Khalil Oueslati – NON EXECUTIVE DIRECTOR
Harold Richardson – NON EXECUTIVE DIRECTOR
Abubakar Sulemana – IND. NON EXECUTIVE DIRECTOR
Lisa Mensah – IND. NON EXECUTIVE DIRECTOR

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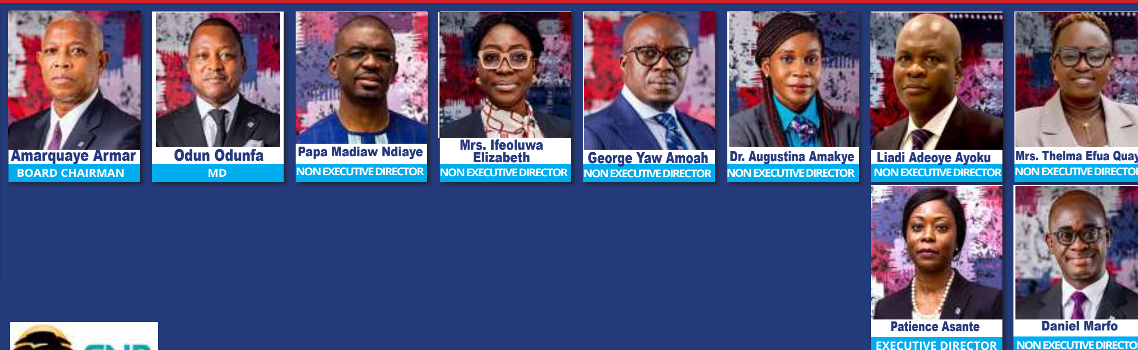
First Atlantic Bank Board of Directors



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Odun Odunfa – MD
Papa Madiaw Ndiaye – NON EXECUTIVE DIRECTOR
Mrs. Ifeoluwa Elizabeth – NON EXECUTIVE DIRECTOR
George Yaw Amoah – NON EXECUTIVE DIRECTOR
Dr. Augustina Amakye – NON EXECUTIVE DIRECTOR
Liadi Adeoye Ayoku – NON EXECUTIVE DIRECTOR
Mrs. Thelma Efua Quaye – NON EXECUTIVE DIRECTOR
Patience Asante – EXECUTIVE DIRECTOR
Daniel Marfo – NON EXECUTIVE DIRECTOR

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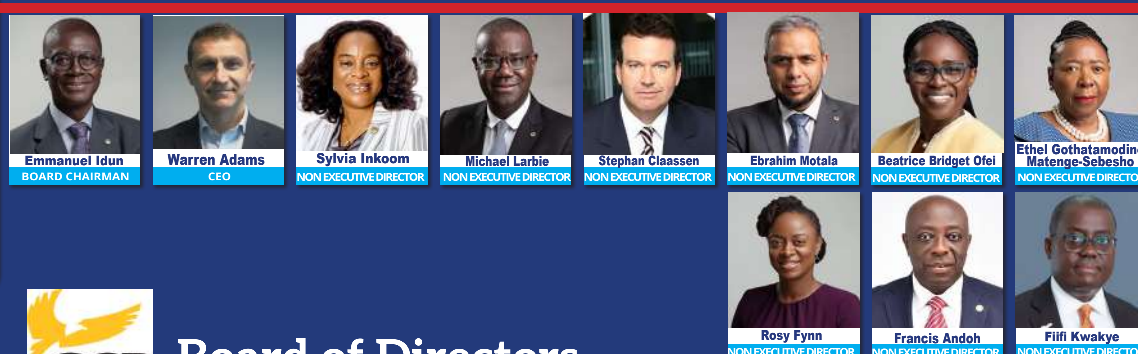
FNB First National Bank Board of Directors



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Warren Adams – CEO
Sylvia Inkoom – NON EXECUTIVE DIRECTOR
Michael Larbie – NON EXECUTIVE DIRECTOR
Stephan Claassen – NON EXECUTIVE DIRECTOR
Ebrahim Motala – NON EXECUTIVE DIRECTOR
Beatrice Bridget Ofei – NON EXECUTIVE DIRECTOR
Ethel Gothatamodino Matenge-Sebesho – NON EXECUTIVE DIRECTOR
Rosy Fynn – NON EXECUTIVE DIRECTOR
Francis Andoh – NON EXECUTIVE DIRECTOR
Fiifi Kwakye – NON EXECUTIVE DIRECTOR

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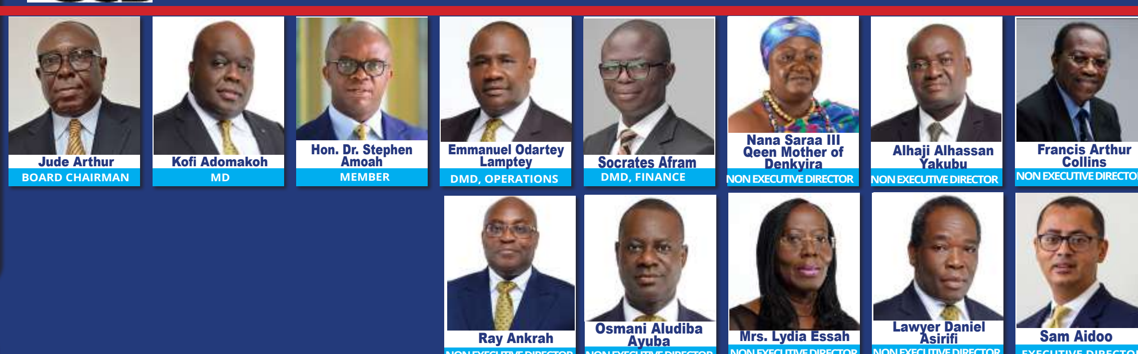
GCB Board of Directors



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Hon. Dr. Stephen Amoah – MEMBER
Emmanuel Odartey Lamptey – DMD, OPERATIONS
Socrates Afram – DMD, FINANCE
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Alhaji Alhassan Yakubu – NON EXECUTIVE DIRECTOR
Francis Arthur Collins – NON EXECUTIVE DIRECTOR
Ray Ankrah – NON EXECUTIVE DIRECTOR
Osmani Aludiba Ayuba – NON EXECUTIVE DIRECTOR
Mrs. Lydia Essah – NON EXECUTIVE DIRECTOR
Lawyer Daniel Asirifi – NON EXECUTIVE DIRECTOR
Sam Aidoo – EXECUTIVE DIRECTOR

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Maidie Elizabeth Arkutu – DIRECTOR
Rasheed Ibrahim – DIRECTOR
Irene Baaba Hagan – DIRECTOR
Adebanji Adeniyi – DIRECTOR

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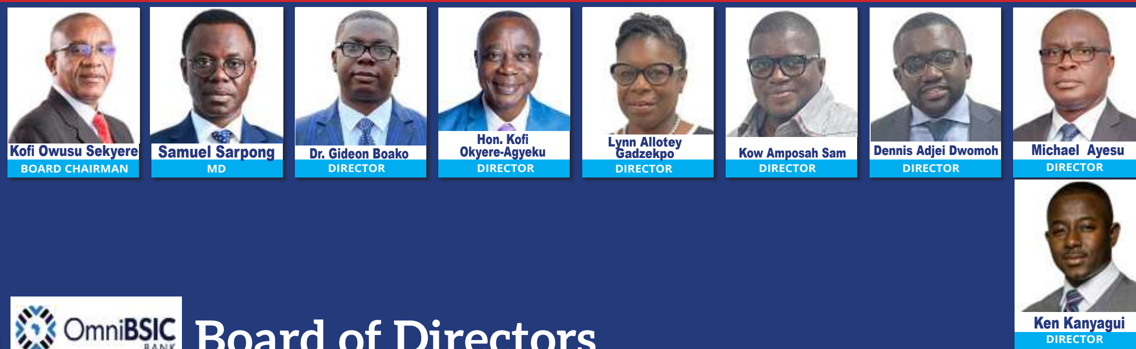

Kofi Owusu Sekyere – BOARD CHAIRMAN
Samuel Sarpong – MD
Dr. Gideon Boako – DIRECTOR
Hon. Kofi Okyere-Agyeku – DIRECTOR
Lynn Allotey Gadzekpo – DIRECTOR
Kow Amposah Sam – DIRECTOR
Dennis Adjei Dwomoh – DIRECTOR
Michael Ayesu – DIRECTOR
Ken Kanyagui – DIRECTOR

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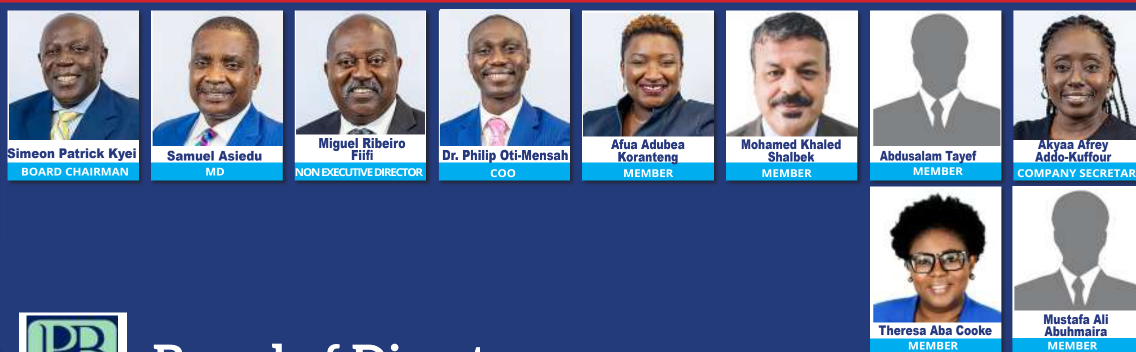

Simeon Patrick Kyei – BOARD CHAIRMAN
Samuel Asiedu – MD
Miguel Ribeiro Fiifi – NON EXECUTIVE DIRECTOR
Dr. Philip Oti-Mensah – COO
Afua Adubea Koranteng – MEMBER
Mohamed Khaled Shalbek – MEMBER
Abdusalam Tayef – MEMBER
Akyaa Afrey Addo-Kuffour – COMPANY SECRETARY
Theresa Aba Cooke – MEMBER
Mustafa Ali Abuhmaira – MEMBER

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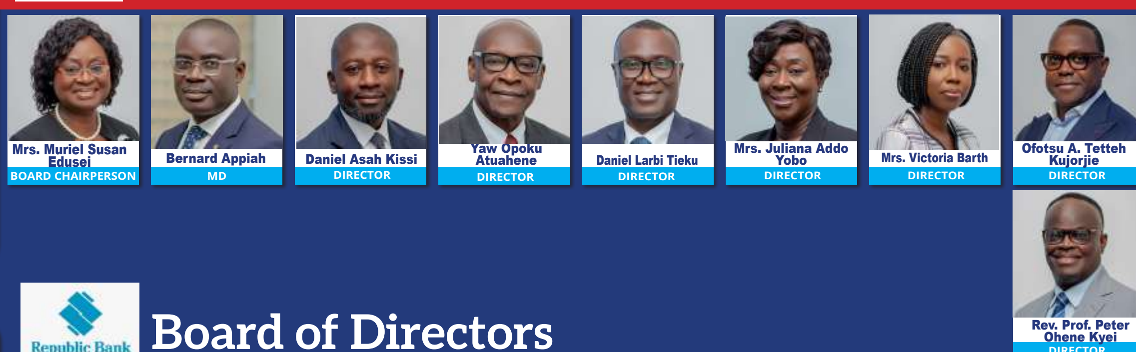

Mrs. Muriel Susan Edusei – BOARD CHAIRPERSON
Bernard Appiah – MD
Daniel Asah Kissi – DIRECTOR
Yaw Opoku Atuahene – DIRECTOR
Daniel Larbi Tieku – DIRECTOR
Mrs. Juliana Addo Yobo – DIRECTOR
Mrs. Victoria Barth – DIRECTOR
Ofotsu A. Tetteh Kujorjie – DIRECTOR
Rev. Prof. Peter Ohene Kyei – DIRECTOR

Republic Bank Board of Directors

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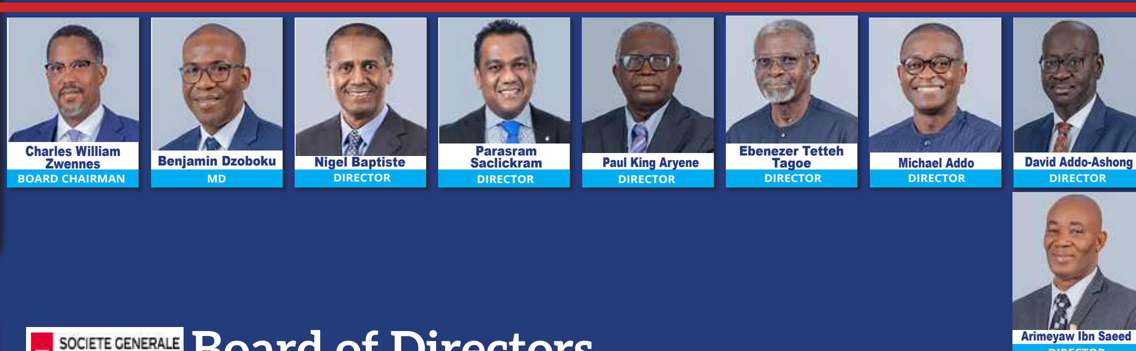

Charles William Zwennes – BOARD CHAIRMAN
Benjamin Dzoboku – MD
Nigel Baptiste – DIRECTOR
Parasram Saclickram – DIRECTOR
Paul King Aryene – DIRECTOR
Ebenezer Tetteh Tagoe – DIRECTOR
Michael Addo – DIRECTOR
David Addo-Ashong – DIRECTOR
Arimeyaw Ibn Saeed – DIRECTOR

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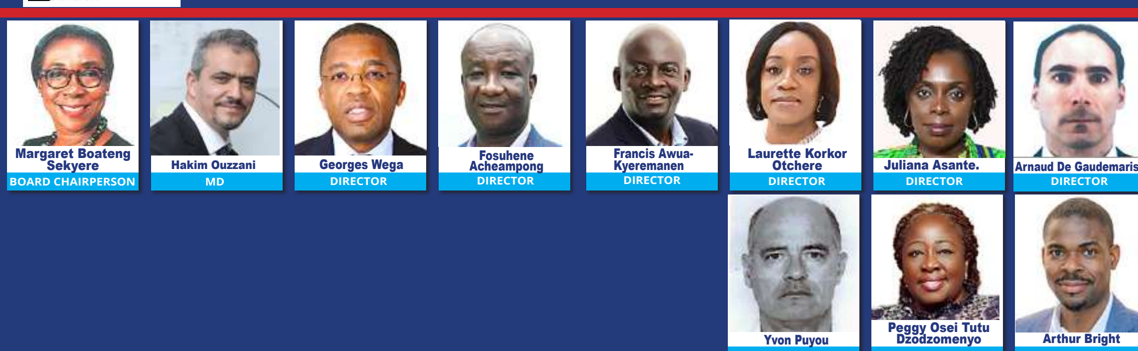

Margaret Boateng Sekyere – BOARD CHAIRPERSON
Hakim Ouzzani – MD
Georges Wega – DIRECTOR
Fosuhene Acheampong – DIRECTOR
Francis Awua-Kyeremanen – DIRECTOR
Laurette Korkor Otchere – DIRECTOR
Juliana Asante. – DIRECTOR
Arnaud De Gaudemaris – DIRECTOR
Yvon Puyou – DIRECTOR
Peggy Osei Tutu Dzodzomenyo – DIRECTOR
Arthur Bright – DIRECTOR

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Stanbic Bank Board of Directors

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- Sarah-Mary Frimpong — NON EXECUTIVE DIRECTOR
- John Kofi Baisie — IND. NON EXECUTIVE DIRECTOR
- Prof. Robert Darko Osei — IND. NON EXECUTIVE DIRECTOR
- Zaranyika Timothy Mugodi — EXECUTIVE DIRECTOR
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Standard Chartered Board of Directors

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- Sheikh Jobe — EXECUTIVE DIRECTOR
- Kwabena Nifa Aning — IND. NON EXECUTIVE DIRECTOR
- George Akello — NON EXECUTIVE DIRECTOR
- Angela Naa Sakua Okai — COMPANY SECRETARY
- Albert Larweh Asante — CFO

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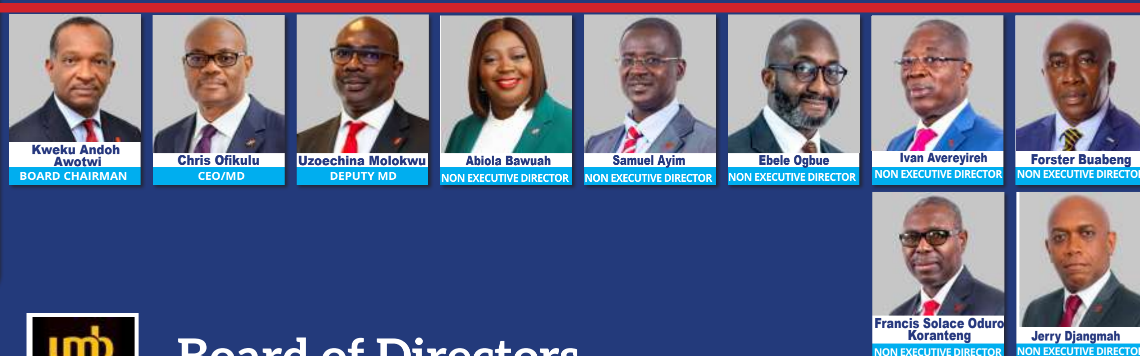
UBA United Bank for Africa Board of Directors



- Kweku Andoh Awotwi — BOARD CHAIRMAN
- Chris Ofikulu — CEO/MD
- Uzoechina Molokwu — DEPUTY MD
- Abiola Bawuah — NON EXECUTIVE DIRECTOR
- Samuel Ayim — NON EXECUTIVE DIRECTOR
- Ebele Ogbue — NON EXECUTIVE DIRECTOR
- Ivan Avereyireh — NON EXECUTIVE DIRECTOR
- Forster Buabeng — NON EXECUTIVE DIRECTOR
- Francis Solace Oduro Koranteng — NON EXECUTIVE DIRECTOR
- Jerry Djangmah — NON EXECUTIVE DIRECTOR

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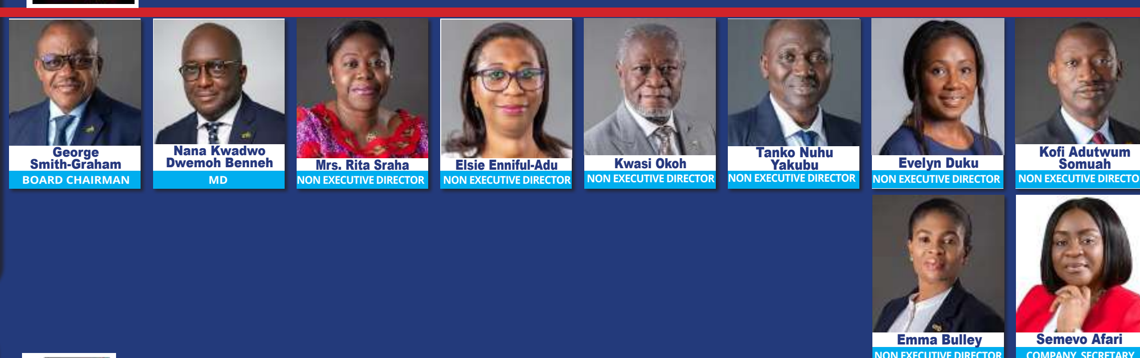
umb Board of Directors



- George Smith-Graham — BOARD CHAIRMAN
- Nana Kwadwo Dwemoh Benneh — MD
- Mrs. Rita Sraha — NON EXECUTIVE DIRECTOR
- Elsie Enniful-Adu — NON EXECUTIVE DIRECTOR
- Kwasi Okoh — NON EXECUTIVE DIRECTOR
- Tanko Nuhu Yakubu — NON EXECUTIVE DIRECTOR
- Evelyn Duku — NON EXECUTIVE DIRECTOR
- Kofi Adutwum Somuah — NON EXECUTIVE DIRECTOR
- Emma Bulley — NON EXECUTIVE DIRECTOR
- Semevo Afari — COMPANY SECRETARY

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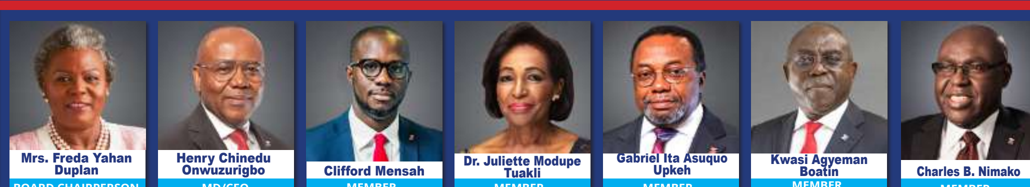
ZENITH Board of Directors



- Mrs. Freda Yahan Duplan — BOARD CHAIRPERSON
- Henry Chinedu Onwuzurigbo — MD/CEO
- Clifford Mensah — MEMBER
- Dr. Juliette Modupe Tuakli — MEMBER
- Gabriel Ita Asuquo Upkeh — MEMBER
- Kwasi Agyeman Boatin — MEMBER
- Charles B. Nimako — MEMBER

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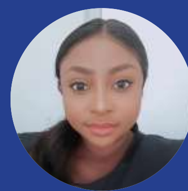

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Crossing your boundaries ignites growth

We can bring your people, data and technology together for a truly borderless organisation. Which means every critical process, function and relationship can align to meet your customers' expectations, create business value and activate sustainable growth in a digital world.

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