Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 30-Apr-2018 | Report No: PIDISDSC23471

BASIC INFORMATION

A. Basic Project Data

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

Proposed Development Objective(s)

The objective of the project is to promote financial sector soundness and access to finance by individuals, particularly women and less included regions of Ghana.

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

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

DETAILS

World Bank Group Financing

International Development Association (IDA)	30.00
IDA Credit	30.00

Environmental Assessment Category	Concept Review Decision

C-Not Required	Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

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

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

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

4. Based on data from the Ghana Living Standards Surveys (GLSSs), Ghana has made remarkable progress in poverty reduction since 1991. About one-quarter of Ghanaians lived below the poverty line in 2013 and 9.6 percent were in extreme poverty. This is substantially down from 52.7 percent (below the poverty line) in 1991 and 37.6 percent in extreme poverty that same year.[1] Thus, Ghana achieved the first Millennium Development Goal (MDG) of cutting its

[1] World Bank, Poverty Reduction in Ghana: Progress and Challenges, 2015.

early-1990's poverty rate in half by 2015. Sustained, robust economic growth, broadly shared, has been a major factor in the reduction of poverty, but structural transformation, including the increasing shares of services and industry in the economy have also contributed. Increased productivity in agriculture has led to higher incomes in the rural economy. Improved education and skills have also contributed to better wages and hence the reduction in poverty. However, persistent spatial inequality (including in the access to financial services) remains an issue as the number of poor increased in Volta, Northern and Upper West regions, even while it declined in other regions.

Sectoral and Institutional Context

5. The financial sector in Ghana has grown over the past five years, but remains bank-dominated and concentrated. Total financial sector assets grew from 48 percent of GDP in 2010 to 68 percent in 2015. Deposit money banks are dominant, with assets equivalent to 47 percent of GDP in 2015. They accounted for 69 percent of the total assets, followed by pension funds with 16 percent, the fund management sector with 12 percent, and the insurance sector with 3 percent. In 2000, there were 16 banks with 304 branches, which grew to 34 banks with approximately 1,200 branches in 2016. The five largest banks owned 40 percent of the total assets of the banking system in 2015, down from 46 percent in 2013. Concentration is likely to increase due to the recent takeover of two small insolvent banks by one of the largest banks in the system. While private credit to GDP is on par with the Sub-Saharan median, it is below the level implied by Ghana's level of income as well as the level needed to finance productive investments and spur economic growth.

6. While the banking sector appears to be sound on average, it is vulnerable to high and increasing non-performing loans (NPLs). Average capital adequacy ratio (CAR) was at 15 percent in October 2017, down from 17.1 percent October 2016, but well above the above the regulatory minimum of 10 percent and the Bank of Ghana's (BoG) recommended level of 13 percent. However, there is a significant heterogeneity among institutions with some of them falling below the minimum CAR and at risk of further deterioration in capital positions as a result of increasing and high NPLs, which stood at 21.6 percent in October 2016, up from 19 percent a year earlier.

7. There are many formal and informal financial institutions playing a key role in financial inclusion, particularly serving the most excluded segments of the population. These include Microfinance Companies (MFCs), Money Lending Companies (MLCs), and Financial NGOs – jointly classified as Microfinance Institutions (MFIs); Rural and Community Banks (RCBs); Susu Collectors[2]; Savings and Loans Companies (S&Ls); and Finance Houses. S&Ls, Finance Houses, and RCBs are also categorized as Tier 1 institutions; MFCs as Tier 2; MLCs and FNGOs as Tier 3; and Individual Money Lenders and Susu Collectors as Tier 4. Together, these institutions are known as Specialized Deposit-Taking Financial Institutions (SDIs). As a group, SDIs account for around 16 percent of banks and SDIs' assets. There are also workplace, faith, and community-based credit unions with a total of 810,104 members[3]. Together with mobile money, SDIs and credit unions have been the main contributors to financial inclusion since 2010. Moreover, there are informal financial services providers such as Village Savings and Loans Associations (VSLAs) However, a significant number of SDIs – particularly MFIs, RCBs, and S&Ls – are not operating in a safe and sound manner and are in violation of prudential norms.

8. Within the context of a growing and increasingly electronic financial sector, but one that faces stability challenges, the percent of Ghanaians with access to formal financial services increased. Fifty-eighty percent of Ghanaians had access to formal financial services in 2015, up from 41 percent in 2010. While banks contributed 36 of the 58 percentage points in formal access, they only contributed 2 of the 17 percentage points increase between 2010 and 2015; conversely, mobile money alone accounted for 7 percentage points of the increase, and mobile money and other non-bank financial

[2] Financial NGOs do not take deposits; Susu Collectors collect savings from client, which they usually deposit in other depository financial institutions.

[3] Only credit unions affiliated to Ghana Co-Operative Credit Unions Association (CUA).

institutions (regulated MFIs, credit unions, insurance companies, etc.) jointly accounted for the remaining 8 percentage point increase. The limited role of banks in driving financial inclusion between 2010 and 2015, highlights the potential and need for banks to do more, as well as the scope for innovative providers to offer existing or new products using alternative channels and business models.

9. Access to financial services is heterogeneous across regions and key demographics (Annex 1). In terms of regions, the five poorest regions (Upper West, Northern, Volta, Upper East, and Brong Ahafo) remain the most financially excluded, despite the largest gains in financial inclusion taking place in these areas. Similarly, rural residents and women have less access to banks than do their urban and male counterparts. Rural residents, women, and the poor rely more heavily on Non-Bank Financial Institutions (NBFIs) and informal financial services than do urban residents, men, and the non-poor. Furthermore, the combined use of mobile money and NBFIs is greater for rural residents, women, and the poor than their use of banks.

Relationship to CPF

10. The project is closely aligned with the World Bank Group's Country Partnership Strategy for Ghana (FY13 – FY16)[4] which is organized around three priorities: (i) improving public institutions; (ii) fostering competitiveness and employment; and (iii) protecting the poor and vulnerable. Financial sector reform is identified as a key intervention to support the objective of increasing Ghana's competitiveness and employment, including through financing the growth needs of Ghanaian businesses and advancing Ghana's aspiration to become a finance hub for the sub-region

C. Proposed Development Objective(s)

11. The objective of the project is to promote financial sector soundness and access to finance by individuals, particularly women and the most excluded regions.

Key Results (From PCN)

12. Key results include: (i) improved financial sector soundness, measured by the percentage of active SDIs in compliance with their respective minimum capital requirement; and (ii) increased financial inclusion measured by the percentage of adults with access to formal financial services, percentage of adult women with access to formal financial services, and average percentage of adults with access to financial services in the five most excluded regions

D. Concept Description

13. To project will achieve the objective and results above by supporting interventions aimed at: (i) improving financial sector regulatory oversight and market transparency and discipline; (ii) increasing the operational efficiency and outreach of SDIs and VSLAs; (iii) bolstering financial capacity and consumer protection; and (iv) enhancing the capacity for financial sector policy implementation and monitoring and supporting project implementation.

SAFEGUARDS

[4] The CPS for FY13-16 was extended to FY18 through the Program and Learning Review (PLR) completed in October 2016.

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Capacity building will be provided to the Ministry of Finance, Bank of Ghana, and Apex Institutions - all located in Accra - Ghana and to financial institutions operating throughout the country.

B. Borrower's Institutional Capacity for Safeguard Policies

N/A

C. Environmental and Social Safeguards Specialists on the Team

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

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Performance Standards for Private Sector Activities OP/BP 4.03	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Jun 20, 2018

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

Not applicable

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APPROVAL

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