Our Impact

Supporting Ghana's Inclusive Payment Ecosystem

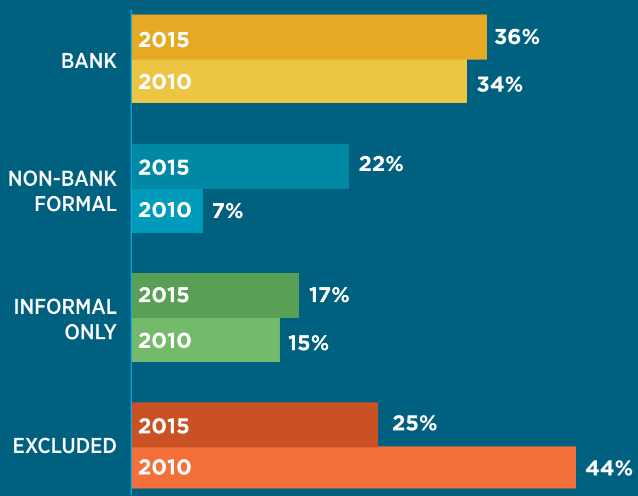
CGAP

Policy is one of CGAP's priority areas: enabling regulatory frameworks set the foundation on which poor households access financial services and help determine the range, quality, and cost of formal financial services available to the underserved and unbanked. CGAP's engagement in Ghana is one example of how our intervention supported the regulatory reform, critical to the development of Ghana's digital financial services ecosystem.

In the past five years, Ghana has made substantial progress on financial inclusion, in large part due to growth in digital financial services. Comparing the 2015 Financial Inclusion Insights (FII) survey commissioned by CGAP with the 2010 FinScope survey shows the share of Ghanaian adults (age 15+) with access to formal financial services increased by at least 41 percent in five years. As a result, nearly six in 10 adults had formal access in early 2015, and financial exclusion had nearly halved, falling by more than 43 percent in five years.

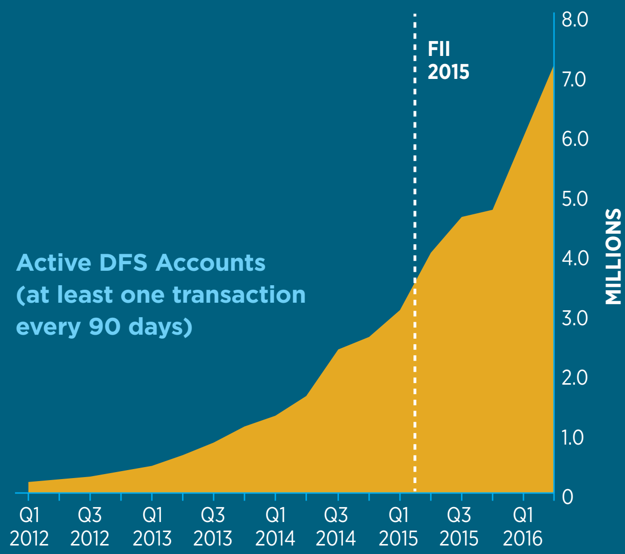
Half of this increase in financial inclusion was a direct result of mobile money alone; the other half was due to a combination of mobile money and other non-bank formal financial services. But progress doesn't stop there. Since the FII data were collected, the number of active mobile money accounts in Ghana has grown from 3 million to over 7 million in June 2016 (25% active). By comparison, when CGAP first started engaging in this market in 2011, there were approximately 100,000 active accounts in Ghana.

Financial Access FII (2015) vs. FinScope (2010)



Source: Data from the 2015 FII Ghana

Active accounts have also been growing year-on-year for the past several years.



Source: CGAP estimates. Note: Shows accounts, not users. Includes non-MM DFS accounts.

Key Market Challenges

In 2011, CGAP began engaging with the branchless banking sector in Ghana. It quickly became clear that the existing regulatory framework presented unintended barriers to the market's growth. Although the Bank of Ghana had been relatively early to issue branchless banking guidelines in 2008, there were a number of features that were out of sync with the market context. Notably, the guidelines permitted only banks to offer branchless banking services and prevented mobile network operators from owning and driving the services. The guidelines also required any branchless banking deployment to involve at least three banks and forbade exclusive partnerships. The Bank of Ghana's goal with this model was to provide greater access and higher value for consumers through an open and interoperable system driven by banks. However, these regulations unintentionally impeded the development of the market in several ways:

- **Free Rider Problem:** There was little incentive for banks to make significant investments in the branchless banking market if their competitors would reap the benefits equally without making their own investments.
- **Passive Partner:** The banks generally declined to assume any of the roles the regulations envisaged, such as registering and serving customers; conducting agent due diligence and managing agent networks; and developing, offering, and marketing products. They were primarily focused on holding customer float in a pooled account and providing passive support in liquidity management to agents through their branches.
- **Cost to Mobile Network Operators:** Although mobile network operators shouldered the majority of investments and made key decisions, legally, they had little rights. According to the regulations, the products, customers, and agent networks were all owned by partner banks.
- **Communications Gap:** Since mobile network operators were not recognized financial services providers, they had no direct relationships with the Bank of Ghana and needed to go through their partner banks for every interaction with the regulator. As a result, Bank of Ghana was out of touch with the needs and challenges of mobile network operators, who were, in reality, driving the market.

"**CGAP scheduled a meeting** with us at which they pointed out that the branchless banking guidelines may not be working well but had instead created a lot of tension in the system. We had not conducted an impact assessment to test what was going right or wrong and so it appeared that things were happening on our blind side. CGAP hosted a stakeholder meeting, which helped us to realize that there were problems and unintended consequences created by some sections of the regulations. We got a lot of guidance from CGAP, who had knowledge from other countries and through their networks."

—Elly Ohene-Adu, *Former Director & Head of Banking Department, Bank of Ghana*

CGAP Engagement

In the absence of other development partners engaged in the digital financial services space in Ghana, CGAP took the lead in advocating for change and supporting regulatory reform. CGAP's key contributions included facilitating a public-private dialogue, supporting broader capacity building, facilitating effective engagement, and providing technical guidance.

Facilitating Public-Private Dialogue

- CGAP organized a high-level workshop in December 2011 attended by government representatives. The purpose of the workshop was to educate participants on best practices in branchless banking regulations and highlight the weaknesses in the Ghanaian regulations. Leading industry representatives were brought in separately in a way that made it safe and comfortable for the regulators to engage and ask questions. The outcome of the discussions included an understanding of the current challenges in the system and an agreement to begin the process to change the guidelines.

Supporting Broader Capacity Building

- CGAP supported broader capacity building of key Bank of Ghana staff involved in the supervision and oversight of digital financial services—including the Deputy Governor—by linking them to peer communities and learning opportunities (e.g., the Fletcher School Leadership Program for Financial Inclusion, CGAP's global partnership events, and relevant peer discussions).

Facilitating Effective Engagement

- Bank of Ghana began to communicate regularly with mobile network operators and sought their input on revising the regulations. CGAP continued to assist the Bank of Ghana in engaging key players in the industry throughout the process of revising the regulatory framework.

Providing Technical Guidance

- CGAP provided in-depth technical support to the Bank of Ghana drafting committee by highlighting key issues, articulating options, pointing out pros and cons, and sharing relevant examples illustrating how Bank of Ghana's peers around the world had addressed the same issues.

"**Our biggest contribution** was helping the Bank of Ghana understand that there was a problem, what that problem was, and opening up a dialogue between the MNOs and the Bank. MNOs also felt that, after CGAP's engagement, there was finally an option to talk directly with the Bank of Ghana. We helped open up the dialogue and set the foundation for that relationship.

—Claudia McKay, *Africa Regional Lead, CGAP*

© Dominic Chavez/World Bank

CGAP Contribution to Policy Reform

After helping pave the way for regulatory revision and facilitating the initial rounds of consultation between the Bank of Ghana and industry representatives in 2013, CGAP was invited to join sessions of the Bank's internal drafting committee tasked with drawing up a new regulatory framework. Members of the group included representatives from the Banking, Banking Supervision, Legal, and IT Audit departments. CGAP continued to support the Bank of Ghana working group through several rounds of drafting, stakeholder feedback, and revisions.

While the technical process was nearly concluded, a series of competing political priorities—notably a dramatic currency depreciation—slowed things down. The revised guidelines were eventually approved by the Board of Governors in November 2014. However, last-minute push-back by several banks created another delay. CGAP helped overcome the impasse by fostering discussions among the banks and mobile network operators about their concerns and how to achieve a middle ground.

The new agent and e-money guidelines were finally issued on July 6, 2015. Banks, mobile network operators, GSMA, the Ghana Telecoms Chamber, and others in the industry hailed it as a best practice policy framework for digital financial services. Most importantly, the new rules refrained from dictating a specific partnership model and permitted non-banks to be directly licensed by the Bank of Ghana, allowing them to own and run e-money businesses.

This shift created an open and level playing field for various types of digital financial services providers. It secured the position of the mobile network operators and gave them the confidence to keep investing in the digital financial services business, while clarifying their rights and obligations. This renewed confidence comes through clearly in data on the number of active mobile money agents in Ghana (see Figure 1).

"**Kwaku Sakyi-Addo, CEO** of the Ghana Chamber of Telecommunication, lauded CGAP for the [Financial Inclusion Insights surveys Ghana 2015], and stated that mobile money has a huge potential for Ghana if the current development continues."

Source: Ghana News Agency

"**CGAP was able to** come in as a credible, neutral player to showcase global experiences and walk through every technical aspect with the Regulators in order to re-draft the guidelines, seek consensus, and buy-in from all players (MNOs, Banks, and Regulators). CGAP was instrumental in making the changes happen and in the finalization of the new regulatory framework in Ghana. This landmark change has dramatically improved the conditions of digital financial services in Ghana."

—**Selorm Adadevoh,** *former Chief Commercial Officer, Tigo (Millicom) Ghana*

Figure 1: Active MM agents in Ghana (est.)

Source: Bank of Ghana (CGAP calculations)

The new regulations also offered sizeable benefits to the end-users by reducing barriers to access and strengthening supervision and consumer protection. By introducing different tiers of accounts and using the risk-based approach to "know your customer," the new rules helped lower the hurdle for poor clients to enroll and set higher transaction limits for better-off peers. The regulations also set forth a framework with clear rules on ID requirements and transaction limit for "over-the-counter" services, recognizing the strong demand and need for better controls. Furthermore, the Bank of Ghana introduced a dedicated section in the regulations on consumer protection issues.

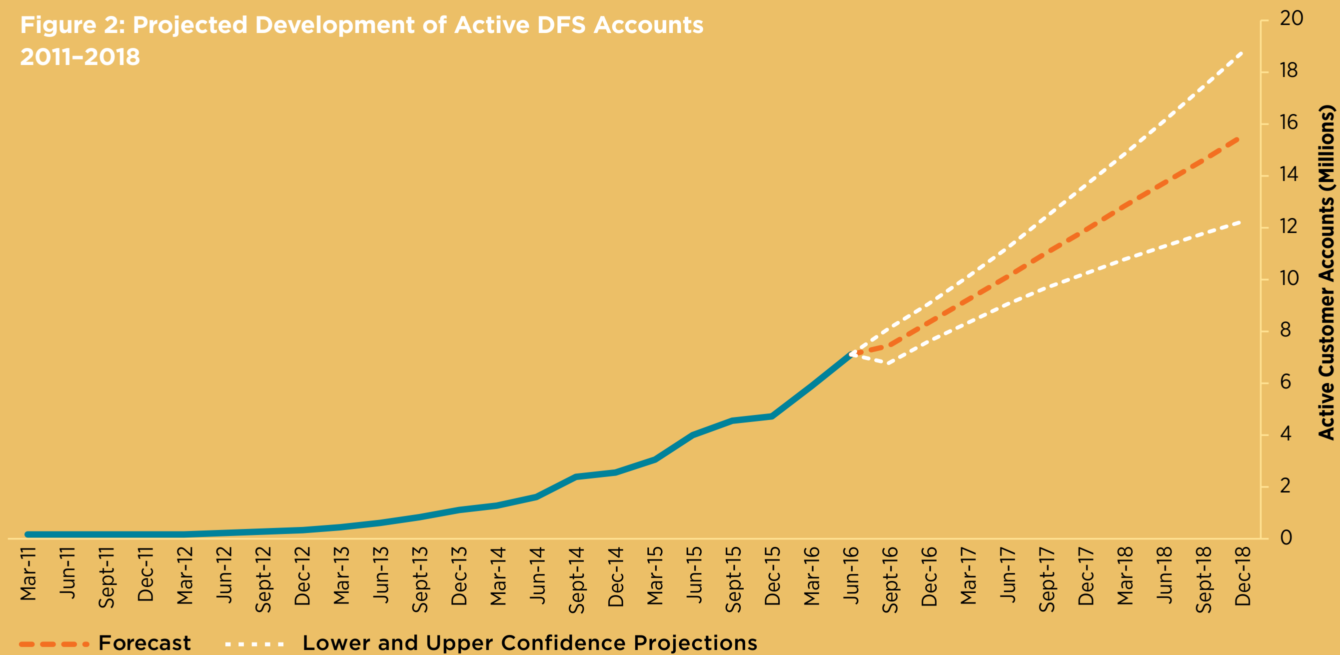
One innovative feature of the new supervisory framework is the mandatory pass-through of at least 80 percent of the interest earned on e-money float accounts to the customers whose funds are being intermediated. This gives unbanked Ghanaians the same right to a return on their money that most banked Ghanaians take for granted. The guidelines also state the intent to include e-money balances under the planned deposit insurance scheme, which would further encourage savings behavior and provide low-income customers peace of mind. In short, the regulations aim to give unbanked Ghanaians more choice, less risk, and a greater return on their wallet balances.

The Bank of Ghana's new regulatory framework created a transparent and solid foundation for the expansion of digital financial services and active customer accounts (Figure 2).

Ghana's regulatory reform is partly a reflection of strong market fundamentals that had previously been undermined by a restrictive regulatory environment. However, it can also be attributed to Bank of Ghana's pragmatism and open minded approach to acknowledging the problems and working collaboratively with the industry and CGAP.

The reform marked a new and exciting phase in the development of digital financial services in Ghana where CGAP played an important role. As the focus shifts to implementation, CGAP continues to partner with the Bank of Ghana to put in place the right processes and systems to bolster Ghana's rapidly growing digital financial services space.

Figure 2: Projected Development of Active DFS Accounts 2011–2018



Source: Bank of Ghana (CGAP calculations)

CGAP Members

"Once the providers saw that the Bank of Ghana was committed to changing the regulations—and license the MNOs to run mobile money directly—it gave the providers a lot of confidence in continuing to engage and invest in the business."

—**Peter Zetterli, *Senior Financial Sector Specialist, CGAP***

www.cgap.org
www.microfinancegateway.org

About CGAP

The Consultative Group to Assist the Poor (CGAP) is a global partnership of over 30 leading organizations that seek to advance financial inclusion. CGAP develops innovative solutions through practical research and active engagement with financial service providers, policy makers and funders to enable approaches at scale. Housed at the World Bank, CGAP combines a pragmatic approach to responsible market development with an evidence-based advocacy platform to increase access to the financial services the poor need to improve their lives. Our mission is to improve the lives of poor people by spurring innovations and advancing knowledge and solutions that promote responsible, sustainable, inclusive financial markets.