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Ministry of Finance (MoF)
SME Growth and Opportunity Summit – 2024

Remarks

by

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**Your Excellency, the President of the Republic of Ghana, Nana Addo Dankwa Akufo-Addo,
Senior Vice President of the African Development Bank,
The Minister of Finance, Hon. Dr. Mohammed Amin Adam,
The Minister of Trade and Industry, Hon. K.T. Hammond,
The Minister of Works and Housing, Hon. Kojo Opong-Nkrumah,
The Minister of State at the Ministry of Finance, Hon Abena Asare,
The Second Deputy Governor of the Bank of Ghana, Mrs Elsie Addo Awadzi,
Honourable Deputy Ministers,
Chief Executive Officers of Financial Institutions,
Captains of Industry,
Distinguished Guests,
Ladies and Gentlemen.**

A. Introduction

1. Good morning, everyone. Thank you for this opportunity to share a few thoughts on this topical issue of overcoming the challenges of SME Financing, and particularly, the Role of Regulation. Small and medium enterprises (SME), constitutes the core economic base of most countries. Their contribution to economic growth, employment generation and poverty reduction, are widely recognized in both developed and developing countries. I am therefore encouraged that the Government of Ghana has brought stakeholders together to discuss SME growth and Opportunity. I hope that this platform will provide the much-needed base for knowledge sharing and networking among CEOs of SMEs.
2. In my brief remarks today, I will first touch on recent developments in the Ghanaian economy, particularly, the shocks that have impacted the Ghanaian economy over the last four years. I will also discuss steps Government and the Bank of Ghana have taken to mitigate the impact of these shocks on the economy, particularly on the SME sub-sector, and share some emerging signs of stabilization and recovery that is taking hold. I will then turn my attention to other structural reforms the Bank of Ghana has implemented in recent years to support the SME sub-sector.

B. SME's Recent Financing Challenges and Policy Responses

3. Mr. Chairman, over the past four years, Ghana has been impacted by multiple shocks that has greatly impacted all facets of economic life including the operations of the SME sector. **The COVID-19 pandemic** particularly presented both demand and supply shocks to the domestic economy. As you would recall, some businesses collapsed, while those that survived had to endure lower sales due to mobility restrictions and additional costs to protect their staff and customers. SMEs suffered the most during the covid pandemic crisis. The large SMEs sector of the economy that in the past used to provide a cushion to such shocks, this time around amplified the shock as the lockdowns brought a halt to their activities as well. Government therefore in a close coordination with other stakeholders implemented policy interventions to limit the impact of the crisis on the SMEs sector and the broader economy. As part of the intervention measures introduced by the Government to support the SMEs sector included an Emergency Preparedness and Response Plan of GH¢560 million (US\$100 million), Alleviation to SMEs fund, nationwide electricity and water bills relief for over three months as well as National Buffer Stock Company.

4. To complement government's Covid19-relief measures, the Bank of Ghana also announced a series of policy and regulatory measures to loosen financing conditions, ease liquidity pressures and keep credit flowing to support critical sectors of the economy.

- The Bank of Ghana cut the monetary policy rate by 150 basis points to 14.5 percent in March 2020 and worked with commercial banks (through moral suasion) to transmit the same measure of decline to lending rates.
- The Bank also reduced primary reserve requirements to 8 percent from 10 percent to increase liquidity in the banking system.
- The Bank of Ghana reduced the Capital Conservation Buffer (CCB) of banks by 1.5 percentage, implying an effective drop of capital adequacy requirement (CAR) from 13 to 11.5 percent.

- The provisioning requirements for the spectrum of loan categories was reduced from 10 to 5 percent, which helped to ease liquidity conditions and provided capital relief to banks.
- Urged the commercial banks to provide a 6-month moratorium on principal payments on loans due from customers in the worst-hit sectors of the economy.
- The Bank also suspended Dividend payments by Banks for the year 2020 to secure capital buffers.
- The Bank provided assurance to strengthen the capacity of the ARB Apex Bank to provide liquidity support for rural and community banks facing temporary liquidity challenges.
- It also extended the deadline for SDIs (MFIs and RCBs) to meet new capital requirements to December 2021 from the earlier deadline date of 28th February 2020.
- Similarly, loan repayments that were past due for Microfinance Institutions for up to 30 days were reclassified as “current”, as pertains to all other sectors.
- The Bank also reduced the cash reserve requirement for Rural and Community Banks (RCBs), Savings and Loans Companies (S&Ls), Finance Houses from 8 to 6 percent, and from 10 to 8 percent for microfinance companies.

5. In order to encourage the use of digital forms of payments, the Bank agreed with banks and mobile money operators to the elimination of transaction fees on mobile money transfers of up to GH¢100 and revision of transaction limits upwards to further promote the use of digital solutions, such as mobile money and online transactions.

6. The Bank of Ghana again issued several notices to guide banks and SDIs on the utilisation of capital and liquidity releases as well as to ensure business continuity. In this context, banks and SDIs were required to:

- Activate business continuity and disaster recovery plans to ensure full time access to banking services during the period of the outbreak and restricted movements, and to review these plans on a continuous basis.
- Ensure full functionality of all electronic channels and that ATMs do not run out of cash.
- Develop Covid-19 Contingency Plans to help assess and identify the possible risk scenarios and mitigating measures to deal with the scenarios, including crisis management plan that seeks to map out specific actions to be taken based on Covid-19 case thresholds.

7. Distinguished Guests, these interventions from the Government and the Bank of Ghana helped Ghana to come out of the Covid stronger and the Ghanaian economy to record growth during the peak of the covid pandemic, unlike what happened in other jurisdiction.

8. Ladies and Gentlemen, the economic and policy environment globally changed considerably with the Russia - Ukraine crisis and the higher oil and food prices in 2022. This was followed by the synchronous policy tightening across the globe to contain the rapid increase in inflation as well as weak external demand related to monetary policy tightening and economic slowdown in major economies.

9. As we are all aware, these shocks amplified pre-existing fiscal and debt vulnerabilities, resulting in rapid increase in inflation, sharp depreciation of the exchange rate which led to a balance of payment crisis. The government of Ghana therefore sought the support of the IMF to restore macroeconomic stability and implement wide-ranging structural reforms to build resilience and lay the foundation for stronger and more inclusive growth.

10. The government therefore committed to an IMF programme, and started implementing an ambitious fiscal consolidation and debt sustainability programme. So far, the domestic debt exchange

programme has ended, while the external debt structuring programme is almost concluded. Only recently, the government announced the signing of MoU with the official Creditor Committee.

11. Apart from addressing the challenging macroeconomic environment, the government is also committed, under the IMF programme, to addressing gaps in governance and anti-corruption frameworks to enhance accountability and integrity, while promoting inclusive growth through:

- i. improving the business environment;
- ii. enhancing export competitiveness and integration;
- iii. strengthening Ghana's FDI attractiveness;
- iv. streamlining sectoral and industrial policies;
- v. improving access to finance;
- vi. promoting entrepreneurship while upskilling the labour force to help address skills mismatches; and
- vii. advancing the digitalization agenda for financial inclusion.

12. On its part, the Bank of Ghana has stepped up efforts to bring inflation under control, eliminate monetary financing of budget, and rebuild foreign currency buffers. The bank is also taking steps to implement comprehensive strategy to ensure rebuilding of capital buffers of financial institutions' post-DDEP and establishing the Ghana Financial Stability Fund to provide additional support to the financial sector.

13. Distinguish guests, these measures are beginning to yield positive results. Signs of stabilization and recovery in the Ghanaian economy are emerging. The latest releases show that:

- **Real GDP Growth** ended 2023 at 2.9 percent, up from the revised target of 2.3 percent, driven by the services and agriculture sectors. Growth in 2024Q1 came in stronger than expected at **4.7%**, with the industrial sector posting a growth rate of 6.8%.

- **Inflation** which peaked at 54.1 % in December 2022, and has decelerated faster-than-expected and reached 22.8 percent in June 2024, underpinned by strong policies, and effective liquidity sterilization efforts.
- **Fiscal policy** implementation has been broadly aligned with requirements under the IMF-supported program.
- **Banking sector's** performance has improved as adverse spillovers from DDEP and macroeconomic challenges receded. Banking sector remains stable, liquid, and profitable. Significant profits were recorded in 2023, helping to correct losses from 2022. Meanwhile, banks impacted by domestic debt restructuring have submitted capital restoration plans which are being implemented. At the same time, Ghana Financial Sector Fund established—with an initial allocation of US\$750 million, comprising US\$250 million from the World Bank and US\$500 million from GoG—to provide recapitalisation support to the financial sector (banks and non-banks) is in progress.
- **Gross international reserves position has improved.** At the end of April 2024, the stock of Gross International Reserves increased to US\$6.59 billion representing 3.0 months of import cover, compared with US\$5.91 billion (2.7 months of import cover) at end-December 2023.
- **The exchange rate which recently come under some pressure,** has begun to stabilise as uncertainties surrounding the progress of debt restructuring negotiations with external creditors has been eliminated and the Bank of Ghana's Gold Purchase programme over performed.

14. Just last week, the country successfully went through completion of the Second Review of the IMF programme by the IMF Board. The Board reaffirmed the generally strong program performance and clear signs of emerging economic stabilization. However, noting substantial downside external and domestic risks, they underscored the importance of steadfast reform implementation to entrench macroeconomic stability and debt sustainability while fostering sustained growth and poverty reduction. Sustaining macroeconomic stability requires the Bank of Ghana to continue to ensure that the BOG keeps an eye on inflation. When inflation declines to comfortable levels and interest rates

begin to decline, demand and supply for SME loans will pick up and be a key driving force supporting growth.

15. Let me also add that the Bank of Ghana recognizes the potential role of SMEs in Ghana and in this light has commissioned a study in collaboration with the Development Bank of Ghana and The University of Ghana Business School to better understand the constraints of the SMEs to formulate targeted policies to ensure growth. The objective of the study is among others, to ascertain the economy's SME credit demand needs, the supply of liquidity by these SME and how FINTECHs could be leveraged to scale up lending by the SMEs. Last week, the University of Ghana presented preliminary findings of the research work based on over 500 SMEs surveyed, results of which has shed light on some of the burning issues of the industry.

16. I am positive that the current positive developments in the economy together with our survey findings, when implemented effectively together with sustained improvements in the overall macroeconomic conditions should benefit the SME sector in the long run. In what follows, I will discuss some specific innovations that Bank of Ghana has implemented in recent years to support the SME sector.

C. Recent Innovations by BoG to support SME Growth in recent years

17. Mr. Chairman, the prospects of SMEs' enormous economic growth potential can only be realized if all stakeholders maintain a steadfast commitment to explore innovative policy mechanisms that can enhance the sector's output. In line with this, the Bank of Ghana continues to leverage its mandate to improve the payment ecosystems with modern policy tools such as the regulatory sandbox. The introduction of the innovative regulatory sandbox tool has helped implement policy initiatives to enhance digitalized financial services and foster economic inclusion for Ghanaian SMEs in collaboration with key stakeholders. One such initiative is the Ghana Integrated Financial Ecosystem (GIFE),

launched in June 2022 under the broader Business Sans Borders (BSB) initiative in partnership with the Monetary Authority of Singapore (MAS) and Development Bank Ghana (DBG).

18. This initiative started back in 2020, when the Bank signed a memorandum of understanding with its Singaporean counterpart, the Monetary Authority of Singapore (MAS) to implement a technology enabled, SME focused project known as Business Sans Borders (or Business without Borders). As the name suggests, BSB is an intelligent global digital-hub and connector of platforms of businesses in Asia and beyond, to Ghanaian SMEs and financial institutions.

19. The BSB is designed to enable domestic electronic commerce platforms and SMEs users access to diversify trade opportunities as well as critical, quality ecosystem facilities such as finance, accounting, and business referrals, among others. The BSB also includes a global innovation hub to help FinTech companies develop additional innovative services and products.

20. The GIFE is a comprehensive financial development programme that provides SMEs with financial and digital literacy training, as well as offers the opportunity for SMEs to obtain trusted digital credentials, enhancing their access to financial services and cross-border trade connectivity. In essence, the programme seeks to adequately prepare local SMEs with the requisite skills, tools, and endorsements to make them trusted and capable participants in the international trade arena.

21. A key aspect of the GIFE initiative, which is germane to today's dialogue, is the "intent-to-pay" credit assessment model. This model uses digitally verified SME information to facilitate credit assessment without solely relying on traditional balance sheet strength or collateral requirements. It relies on Application Programming Interface (API) integration with key Government and private sector data sources to perform independent data verification for the development of the trusted digital credentials.

22. Currently undergoing testing in the Bank of Ghana's regulatory sandbox, this model has already facilitated GHS8 million in collateral-free loans to 20 Ghanaian SMEs. As the initiative expands, more partner financial institutions are expected to join, offering additional credit facilities to Ghanaian SMEs. While still in its early stages, the GIFE initiative shows a promising potential to significantly alleviate SME financing challenges and highlights the transformative power of collaborative efforts of regulators and the private sector, leveraging innovative FinTech solutions, in overcoming financing challenges of SMEs.

23. Distinguished Guests, the initial success of GIFE has catalysed the evolution of the Universal Trusted Credential (UTC) concept, jointly championed by BOG and MAS, and now adopted by the United Nations Development Programme (UNDP). This open global initiative aims to enhance access to financing for Micro, Small, and Medium-sized Enterprises (MSMEs) in emerging markets.

24. As advocates for the UTC concept, efforts are underway to develop UTC standards that ensure international interoperability and incorporate key global credentials such as Legal Entity Identifiers or LEI numbers. This advancement is poised to significantly improve local SMEs' access to cross-border trade and financing opportunities.

25. Another promising initiative that the Bank is currently testing in the regulatory sandbox, is SOLV. Promoted by Standard Chartered Bank, SOLV is a digital business-to-business (B2B) Marketplace for MSMEs. The marketplace seamlessly facilitates access to:

- a comprehensive suite of financial services such as Collateral-free invoice financing, business instalment loans, buy-now-pay-later and others, from multiple licensed financial institutions to enhance access to cheaper and efficient credit.
- Reliable & affordable professional business services such as legal, accounting, Insurance, and technology at predetermined rates from a marketplace of providers, and,

- eCommerce platforms to connect buyers and sellers for growth, scale & data.

26. Similarly, the Bank is supporting and facilitating other SME-focused innovative initiatives by other financial institutions and remains committed to these efforts. Let me use this opportunity to encourage other sector players to join in the efforts to develop SME-focused initiatives in furtherance of our shared objective of promoting economic growth and development.

27. While Ghana boasts numerous SME initiatives aimed at driving economic growth and fostering entrepreneurship, the fragmented nature of the initiatives often hinders their collective impact. This needs to be addressed through enhanced collaboration to streamline resources, simplify access for SMEs, harmonize policies, and ultimately maximize the effectiveness of SME support mechanisms across the country. By fostering such coordination, Ghana can create a more cohesive and supportive environment for SMEs to thrive, contributing significantly to sustainable economic development and job creation.

28. On this note, let me commend the Government for organizing this summit and assure all stakeholders that the Bank of Ghana stands ready to support this initiative with sound regulation and efficient supervisory policies. As discussions progress, we look forward to exploring synergies between initiatives such as GIFE and other government programs to ensure cohesive coordination and maximized impact. Thank you for the attention.