



Lessons on Policies That Strengthen Household Financial Resilience to Overcome Shocks:

A Keynote Address by Dr. Mahamudu Bawumia, Vice President of the Republic of Ghana

By Mahamudu Bawumia

Introduction

Today marks the official launch of *Financial Capability and Asset Building in Africa, or FCAB Africa*, an initiative to work with financial-service providers and equip human-service professionals to broaden financial stability, security, and well-being. As FCAB Africa launches, the issue of financial resilience has never been more salient.

As we know, the world woke to a new pandemic at the end of 2019. Our country, Ghana, was hopeful that the virus would not affect us; we were spared during the Ebola outbreak in 2014 and 2015. However, on the 12th of March 2020, Ghana recorded its first two COVID-19 cases, and the numbers kept increasing. Thankfully, through the dynamic leadership of the Nana Akufo-Addo administration, a quantity of vaccines recently arrived in Ghana, restoring the confidence of Ghanaians in the country's economy.

The pandemic has presented countries with enormous policy challenges. Policymakers have had to balance limited resources among livelihoods, health, food systems, commerce, and the associated recession. Like many developing economies, Ghana has faced tough choices because of its limited budgets and administrative capacity.

As social and environmental stressors increase globally, one can anticipate multiple and frequent shocks that will require fast, agile, and well-implemented policy

responses. In my remarks today, I will highlight the Government's multi-stakeholder responses to mitigate the pandemic's effects. The lessons I share may resonate in other sub-Saharan African countries and offer insights for improving the long-term resilience of all sectors.

This presentation addresses three critical questions:

1. How have governments responded to the COVID-19 pandemic?
2. What policy responses have been successful?
3. What new policies are governments considering to foster resilient national cohesion moving forward?

How Have Governments Responded to the COVID-19 Pandemic?

In March 2020, when the pandemic arrived, governments, including the Akufo-Addo administration, responded quickly. In Ghana, our swift and viable responses have received praise from the WHO and other change-makers. The responses have three phases:

1. Emergency response
2. Recovery actions
3. Resilience building



To curb the spread of the virus and rapidly provide support to severely affected households and businesses, we first instituted several emergency measures, including lockdowns, physical-distancing protocols, and closure of the country's borders and airports. As the pandemic spread in our nation, economic activity slowed. The projection for national economic growth was revised from 6.5% to 1.5%. Furthermore, partial lockdowns in some parts of the country hit individuals, business owners, and their employees hard. No or little income came in after businesses closed.

As African governments made targeted investments in hard-hit sectors and implemented vaccination plans, in Ghana, we understood the centrality of the macro-environment in shaping people's capacity to withstand and bounce back from the economic shock. Thus, we established a Coronavirus Alleviation Programme (CAP). We lowered the cap on the Ghana Stabilization Fund (GSF) from the current USD 300 million to USD 100 million in order to allow for the transfer of excess funds to the CAP. And we adjusted expenditures on goods and services. We also adjusted capital expenditures downwards by GHS 1.2 billion.

The Government further responded with a mix of other fiscal and monetary policies to stimulate economic growth and reduce economic losses. Notable among these was the interest-rate reduction to 13.5% as of June 2021, provision of stimulus packages, and credit secured from the International Monetary Fund (up to USD 14 billion) and the World Bank (up to USD 50 billion).

Given today's focus on financial capability, I can imagine that most in the audience would be interested in knowing what the Government of Ghana did to mitigate the impact of the pandemic on financial inclusion, and perhaps specifically the banking sector.

The Ghanaian banking sector was on a fast recovery trajectory due to reforms introduced by the Bank of Ghana some two years before the pandemic. For the third quarter of 2019, the Monetary Policy Committee reported that the sector had become well-capitalized (with 23 universal banks), solvent, liquid, efficient, and profitable, with improved

Financial Soundness Indicators proving that the reforms have had a positive impact on bank performance.

Additionally, the Bank of Ghana introduced raft measures and interventions in March 2020 to contain the impact of COVID-19 on the Ghanaian economy. These include reducing the Primary Reserve Requirement of Banks from 10% to 8% and the Capital Conservation Buffer from 3% to 1.5%. Provisioning on loans classified as OLEM was reduced to 5% from 10%. The costs associated with mobile money and other banking transactions were reduced, and banks were directed to give moratoriums on loan repayments. The central bank also reduced the GRR, Ghana's interest-rate benchmark. These timely measures were crucial to preventing a reverse in the gains made in financial inclusion, especially in ensuring that the most vulnerable can continue to transact financially in easy and beneficial ways.

In a nutshell, financial entities faced low profitability, low deposits, high numbers of non-performing loans, and high operating costs. Shareholders anticipated low returns, and some were not expecting dividends at the end of the 2020 financial year. Thankfully, the story was different in 2021. Many economic sectors and businesses in Ghana made reasonable profits (see the cases of BOST and GCB Bank). Although the pandemic continues to weigh upon the global economy, data from the Ghana Statistical Service indicate that the country's economy is recovering. Growth reached 3.1% in the first quarter of the year.

Bank customers have experienced their share of the adverse effects from COVID-19, and their expectations of banks have changed significantly. Banks cannot go back to old ways of operating. Customers do not want to be exposed to environments that may increase their risk of contracting the virus. They have reduced visits to their banks, implying reduced investment and saving. Customers are also anxious about the future of banking and the resilience of their banks in withstanding shocks. Therefore, banks must create other effective channels in readiness for customer expectations and customers must be equipped with relevant

financial knowledge and skills to engage effectively with the emerging banking paradigm. The vision of FCAB Africa is timely. It is a unique opportunity to expand the capacity of human-service professionals, who work in communities across the country, to deliver basic knowledge and guidance, and to promote improved finance.

As Ghana rebuilds, it is focusing on longer-term strategies to create resilient social, economic, and health systems. The Akufo-Addo administration has established a target of 5% growth by the end of the year, and our Government has outlined key strategies to aid in the recovery. The Ghana Coronavirus Alleviation and Revitalization of Enterprises Support (Ghana CARES) program is expected to raise GHS 100 billion to boost productive capacities of businesses and key sectors. The Government established the new Development Bank of Ghana with a EUR 170 million facility from the European Investment Bank. Additionally, to boost domestic revenue, the Government introduced new taxes and levies in the 2021 budget. The revenue will meet expenditures related to COVID-19 and support other sectors.

What Policy Responses Have Been Successful?

The Akufo-Addo administration believes that policy should offer informed, timely, and cohesive solutions that build credibility and confidence among citizens. However, policymakers had little evidence to guide decisions early in the pandemic. In addition, what worked in one place was not guaranteed to work in another. For example, countries like Egypt that rely on tourism and remittances were especially hard-hit, while Ghana's high social compliance with regulations enabled implementation and enforcement strategies that have driven quick recoveries. To chart a path forward towards more resilient national policy systems, our Government is looking beyond the current best practices to understand what has determined the successes and failures of policy responses.

It is increasingly clear that digital technology will play a key role in the new normal. The Akufo-Addo

administration believes there are cost savings associated with going digital. Lessons learnt from the pandemic have revealed technological strategies for reducing the costs of renting, building, and running brick-and-mortar businesses. Because of recent investments in large and expensive edifices to accommodate employees, fixed assets account for a significant portion of businesses' balance sheets. Thus, with involvement from key stakeholders in the national, business, and household embodiment, the Government is considering new workable policy responses to guide business operations. We believe that this direction in the post-pandemic regime will ultimately reduce businesses' operating costs and may improve affordable access to financial services and products, particularly for the most vulnerable citizens.

The Akufo-Addo administration is implementing adaptable, coherent, and coordinated policies to strengthen financial resilience in business and households. The quality of delivery systems is an important determinant of success. Government is supporting innovation to keep markets working while reducing disease transmission. For example, drone technology deployed in rural areas has sped up the transportation of medical supplies and samples for COVID-19 testing. Creative approaches are being introduced and scaled up quickly, creating business environments that enable public-private partnerships.

I particularly want to highlight the move toward digital infrastructure, such as financial technology, which has already significantly improved financial inclusion across sub-Saharan Africa. Our Government will continue to support the development of financial technology with good governance, as well as policies around privacy, data sharing, unequal access, and cybersecurity. These measures will better protect consumers and broaden access to affordable and beneficial financial services and products.

Conclusions and Moving Forward

COVID-19 led to multiple disruptions, but countries can apply lessons and principles to better

respond to future crises. As we rebuild, the Akufo-Addo administration is examining data on the interplay of health, economic, and social-policy actions in supporting rapid, evidence-based decisions. The Government is improving public delivery systems to quickly scale up and adapt social protections for the poor and vulnerable. Ghana is developing a more enabling business environment with flexible regulations to encourage private innovation in food, health care, and economic systems. This enabling environment encapsulates strong technology governance to ensure that digital tools are equitably accessed and not exploitative. Evidence from research projects such as FCAB Africa will be crucial in shaping future policy directions.

In our Government's view, the success of these policies requires both strong administration and citizen trust in government. Strong administrative systems are characterized by sufficient human and financial resources, mechanisms for oversight and accountability, and independent public institutions. During the height of the pandemic, it was revealed that weak administrative systems led to administrative bottlenecks and hoarding, which undermined cash-transfer and food-relief policies. Citizen trust in government erodes when social protection policies fail. Understandably, non-compliance with lockdowns and vaccination hesitancy ensue. Governments must take such cascading failures very seriously.

Finally, the Government is developing various processes for improved coordination and administration so that policies are well-implemented vertically, horizontally, and temporally in ways that build citizen trust. Indeed, the COVID-19 pandemic has exposed the fragilities of our food, health, and general financial and economic ecosystems. However, the Akufo-Addo administration knows that we can move forward with the right evidence-based policy changes, making these systems stronger, more adaptable, and more sustainable.

As Ghana and countries across the continent recover from the hardships of the pandemic, everyone, but especially vulnerable families, needs

access to beneficial financial services and the knowledge and skills to make optimal financial decisions. FCAB Africa has the vision to meet this challenge, building evidence for programs and policies that advance the well-being of all. We share this vision and call on the relevant stakeholders to engage with this important effort. With that, I declare FCAB Africa officially launched.

Thank you.

Author

Dr. Mahamudu Bawumia has been the Vice President of the Republic of Ghana since January 2017. He chairs the Government of Ghana's Economic Management Team, which has responsibility for guiding and rebuilding the Ghanaian economy. He is at the forefront of a broad, inclusive development strategy in Ghana involving the leveraging of digitised government services in transforming the delivery of public services. His efforts have seen the development of a supportive technology ecosystem resulting, for example, in the rapid growth of a Fintech industry in Ghana. Dr. Bawumia holds a bachelor of science degree in economics (Buckingham University, U.K.), a master of science degree in development economics (Oxford University, U.K.), and a Ph.D. in economics (Simon Fraser University, Canada). He has held academic positions as Assistant Professor of Economics (Baylor University, U.S.A.), Visiting Scholar (University of British Columbia, Canada), and Visiting Senior Research Associate (Centre for the Study of African Economies, Oxford University, U.K.). He has also served as Visiting Professor of Economic Governance (Central University, Ghana). As an Economist and a Chartered Banker, Dr. Bawumia has had a prestigious career, which includes serving as the Deputy Governor of Ghana's Central Bank from 2006 to 2008 and the Resident Representative of the African Development Bank in Zimbabwe in 2011. He is a Fellow of the Chartered Institute of Bankers, Ghana. He has authored several journal articles and has numerous publications to his credit, including *Monetary Policy and Financial Sector Reform in Africa: Ghana's Experience*.

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