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RAPID ASSESSMENT OF COVID-19 PANDEMIC ON GHANA'S FINANCIAL SERVICES & EXPORT - ORIENTED SECTORS - FINAL REPORT

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DISCLAIMER

The views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development, the United States Government or the Government of Ghana.

ACRONYMS

ARB – Association of Rural Banks

BoG – Bank of Ghana

CAP – Coronavirus Alleviation Programme

CAR – Capital Adequacy Ratio

COVID-19 – Corona Virus Disease of 2019

CST – Communication Service Tax

DPO – Development Policy Operation

ECI – Economic Complexity Index

FBN – First Bank Nigeria

GAFEA – Ghana Assorted Foodstuff Exported Association

GCB – Ghana Commercial Bank

GDP – Gross Domestic Product

GHS – Ghana Health Service

GMT – Greenwich Mean Time

GNP – Gross National Product

GNPC – Ghana National Petroleum Corporation

GOG – Government of Ghana

GRR – Ghana Reference Rate

GYPEA – Ghana Yam Producers & Exporters Association

HY – Half Year

IMF – International Monetary Fund

MFIs – Microfinance institutions

MPR – Monetary Policy Rate

NBFIs – Non-Bank Financial Intermediaries

NPL – Non-Performing Loans

NTE – Non-Traditional Export

PO – Purchase Order

PRMA – Petroleum Revenue Management Act

RCBs – Rural/Community Banks

S&Ls – Savings & Loans

SDIs – Specialised Deposit-Taking Institutions

SPEG – Sea-freight Pineapple Exporters of Ghana

SFYEAG – Sea-freight Yam Exporters Association Ghana

UK – United Kingdom




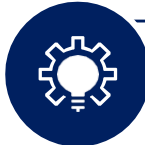




UNCTAD – United Nations Conference on Trade and Development

USA – United States of America

WTO – World Trade Organization

WHO – World Health Organisation

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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Background & objective

Covid-19 pandemic has had a devastating impact on the global economy, impacting trade significantly this year. It is a medical crisis which has led to an economic crisis and may potentially result in a financial crisis.

USAID-METSS has engaged KPMG to undertake an assessment of the impact of the pandemic on the financial and export sectors. The purpose of this assessment was to investigate the strength of Ghanaian financial institutions, the needs of agricultural export-oriented firms, and determine the banks' abilities and willingness to provide trade financing to these businesses.

Below is a summary of key findings.

Q	Question	
I	To what extent will Ghanaian banks (segmented into commercial, savings and loans, and microfinance) be affected by the economic effects of the COVID-19 virus?	<ul style="list-style-type: none"> ✓ The regulator and financial institutions surveyed were aligned on the impact of COVID-19 pandemic on sector performance. The critical impact areas are liquidity, credit (asset quality), revenue and operating costs and their impact on profitability. ✓ Impact on liquidity - From its assessment, BoG indicated that, there has been improvement in the liquidity position of the banking sector in second quarter 2020 as compared to the low growth in deposit and panic withdrawals in first quarter 2020. <ul style="list-style-type: none"> • Growth in deposits were 0.7% in first quarter and 7.9% in second quarter 2020 • 50% of institutions surveyed experienced panic withdrawals, with majority of them recording a decline deposits of between 6% - 10%. • Commercial banks surveyed did not experience panic withdrawals ✓ Credit challenges – Concerns over the impact of COVID-19 on business operations of customers led to the revision of risk profiles associated with credit facilities. As such, provision and NPL ratios saw an increase by 1.2% <ul style="list-style-type: none"> • For pre-COVID-19 NPL position, 94% of respondents had NPLs before COVID 19 and most reported NPL ratio within the range of 0 - 10% • 94% of institutions surveyed expected their NPLs to increase due to impact on their clients • Scenario analysis of expected increase in NPLs, saw respondents estimating an average of 21.8% under the optimistic scenario, 28.6% in a most likely view and 33.5% for a pessimistic view. NPL ratio as at June 2019 was estimated to be 18.2% by the Bank of Ghana.

EXECUTIVE SUMMARY

	Question	
1	To what extent will Ghanaian banks (segmented into commercial, savings and loans, and microfinance) be affected by the economic effects of the COVID-19 virus? (Cont'd)	<ul style="list-style-type: none"> ✓ Profitability - Revenue shortfalls and increase in operating costs were major concerns for most institutions. <ul style="list-style-type: none"> • 92% of respondents indicated that revenue targets will not be met this year. • For the outlook on interest income, 100% of banks, 75% S&L respondents, while 100% and 81.3% of MFIs and RCBs anticipated a shortfall in revenue targets. • For Interest Income, MFI and RCBs appear to be heavily impacted with over 40% projecting interest income will drop by more than 30% • For other sources of income (fees, commissions and other income), all category of SDIs expected a worse outlook compared to the outlook for interest income • On operating costs of SDIs, communication, technology, additional capital and staff related cost were areas of concern for respondents. These costs were expected to increase by an average of 76%, 60%, 52% and 50% respectively. • BoG sector view indicated a sharp increase of 12.9% HY in operational costs and also 17.3% HY cost associated with safety protocols.
2	What is the capacity of the Central Bank of Ghana to address large levels of loan defaults and its capacity to undertake orderly problem bank resolution?	<ul style="list-style-type: none"> ✓ BoG in its half year report on the sector, indicated it was well positioned to manage and support institutions in the banking sector during these uncertain times. ✓ In this respect, it assessed performance indicators within the sector in January, March and June 2020. ✓ BoG's findings resulted in the COVID-19 policy measures released in March and May this year ✓ Based on Q2 performance of the sector BoG gave the following results <ul style="list-style-type: none"> • “The survival rate of the sector to liquidity runs remains high in the first five working days across the various scenarios in all the stress periods” • “Reduction in the Cash Reserve Requirement and the Policy Rate supported the sector to build-up reserves to withstand the shocks.”
3	To what extent will Ghanaian commercial banks be able to continue to lend to export-oriented firms in the agriculture sector to support their continued operations and future growth, or to lend to other opportunities that may have emerged from the COVID-19 situation?	<ul style="list-style-type: none"> ✓ From a sector view, Agriculture, Forestry and Fishing sector was among the sectors with the highest NPL ratio. ✓ Only 7% of survey respondent indicated that they had the capacity and were willing to lend to export oriented firms in agriculture. 50% reported they had no capacity to lend, while 43% said they had the capacity but were not willing to lend. ✓ 74% of respondents indicated that, they had reduced lending rates in response GoG and BoG policy measures

EXECUTIVE SUMMARY

	Question	
	To what extent have GOG policy measures like lowering reserve requirements and decreasing the policy rate freed liquidity for the banks to loan to businesses?	<ul style="list-style-type: none"> ✓ Almost all of the institutions who have reduced interest rates were within the range of 0% to 2%. This is in response to the reduction in the monetary policy rate by the Bank of Ghana. ✓ A minimum of GHC8.4 billion additional liquidity could be made available by commercial banks due to reduction in reserve requirements by BoG. However, it does not appear there is the willingness to lend on the part of the commercial banks.
4	What are the specific needs of export-oriented agricultural firms to help them weather the financial effects of the COVID-19 virus and help them recover?	<ul style="list-style-type: none"> ✓ Key concerns expressed by, exporters on the impact of COVID-19 pandemic on their operations were; market challenges, operational and transportation related costs ✓ Critical operational cost areas staff, freight cost and capital related cost ✓ Needs expressed by exporters included financial assistance, access to markets and operating machines and facilities (warehouse)
5	Are there potential USAID interventions that can help reduce the impact of a COVID-19 downturn on Ghanaian enterprises and financial institutions?	<ul style="list-style-type: none"> ✓ 70% of exporters surveyed were open to partnership or support with USAID and other donor entities <ul style="list-style-type: none"> • Support expected from USAID and other developmental partners was; financial support (grants, aids for operations, long term funding), PPEs for operations, and capacity development • With strategies for assistance, “Technical Support – Value Chain Development” Exporters rely significantly on out-growers and individual farmers who need specific technical support like provision of high-yielding seeds/seedlings, improved farming practices and certification. • Support measures that improve value addition for the raw agricultural produce exported • Development of local or alternate markets for exotic agricultural produce. This will help cushion actors should designated markets fail
	What role could USAID play to ensure that GOG liquidity support programs (either from the GOG’s Coronavirus Alleviation Program or from the IMF Rapid Credit Facility) could be administered efficiently?	<ul style="list-style-type: none"> ✓ Provide funding to the GoG to support the CAP programme. To date, the Government has disbursed less than 10% of the total requests for support from businesses. ✓ USAID could play a role in the Government’s effort to improve the healthcare sector through the construction of additional health facilities.

OBJECTIVE & SCOPE

OBJECTIVE & SCOPE

PURPOSE OF THE ASSIGNMENT AND SCOPE QUESTIONS

The purpose of this assessment was to investigate the strength of Ghanaian financial institutions, the needs of agricultural export-oriented firms, and determine the banks' abilities and willingness to provide trade financing to these businesses.

Q1

To what extent will Ghanaian banks (segmented into commercial, savings and loans, and microfinance) be affected by the economic effects of the COVID-19 virus?

Q2

What is the capacity of the Central Bank of Ghana to address large levels of loan defaults and its capacity to undertake orderly problem bank resolution?

Q3

To what extent will Ghanaian commercial banks be able to continue to lend to export-oriented firms in the agriculture sector to support their continued operations and future growth, or to lend to other opportunities that may have emerged from the COVID-19 situation?

Q4

What are the specific needs of export-oriented agricultural firms to help them weather the financial effects of the COVID-19 virus and help them recover?

Q5

Are there potential USAID interventions that can help reduce the impact of a COVID-19 downturn on Ghanaian enterprises and financial institutions?

OBJECTIVE & SCOPE

DEMOGRAPHICS

This section analyses and presents the survey results and findings after conducting primary research. These findings are expressed in terms of quantitative data which was obtained through questionnaires shared and online surveys to Associations and Business Leaders

The questionnaire constituted various sections, each aiming to examine the rapid assessment of the impact of COVID-19 on the Export and Finance Sectors in Ghana.

Highlighted below are summaries key demographics across respondents. This is to help establish an understanding of the background of respondents while putting the results into perspective.

Sector Breakdown of Survey Participants

Public Institutions
- Ministries

2

Commercial Banks

35%

Ghana Assorted Foodstuff Exported
Association (GAFEA)

13%

Public Institutions
Regulators

2

Microfinance

30%

Ghana Yam Producers & Exporters
Association (GYPEA)

39%

Trade Authority

1

Savings and Loans

15%

Sea-freight Pineapple Exporters of
Ghana (SPEG)

50%

Rural Banks

21%

Sea-freight Yam Exporters Association Ghana
(SFYEAG)

25%

Large Export Companies

3

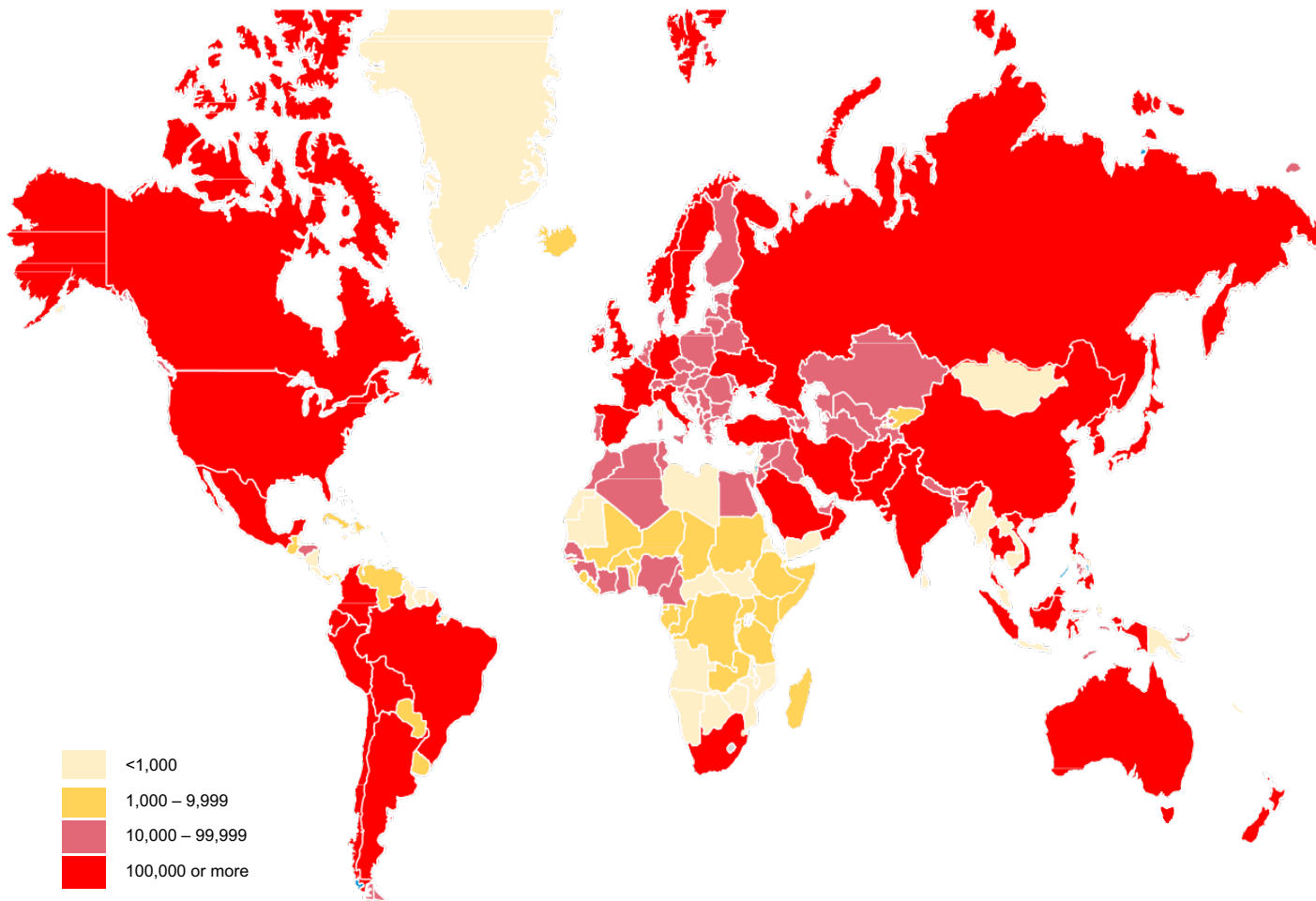
Cashew Alliance/ Global Shea Alliance

2

GLOBAL CONTEXT

GLOBAL SITUATION

The World Has Been Blindsided By The Onslaught Of The Novel Corona Virus...

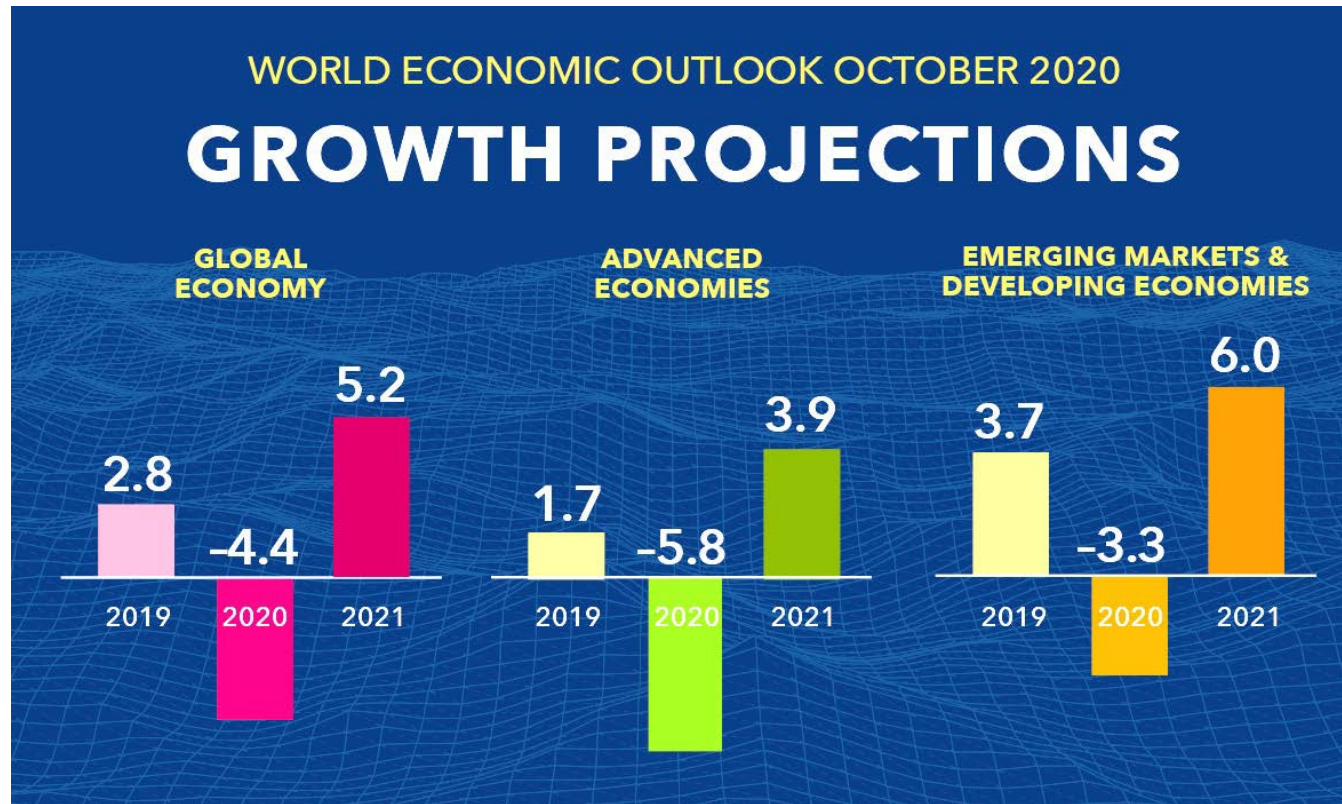


Sources: Worldometer and Johns Hopkins University and Medicine as at 25 August 2020

- The outbreak was declared a Public Health Emergency of International Concern by the World Health Organization (WHO) on 30 January 2020.
- On 11 March 2020, WHO declared COVID-19 a pandemic.
- As at August 2020, there have several developments, notable is the WHO declaring dexamethasone, a corticosteroid, as the first lifesaving drug for patients who are critically ill with COVID-19, based on clinical trials in the UK.
- The pandemic has hit over 213 countries & territories with close to 47 million cases of the virus recorded in total as at 3 November 2020
- Of this number, the recoveries recorded represent about 72% while the deaths represent about 2.6%.
- As at 3 November 2020, 07:55 GMT, USA had the highest number of cases of about 9.6 million, followed by India with 8.3 million and Brazil 5.6 million cases.
- In Africa, South Africa leads in cases with 727,595 followed by Egypt with 107,925.
- Nigeria and Ghana lead in West Africa with 63,036 and 48,200 respectively.

ECONOMIC IMPACT

- According to the IMF, global output is projected to decline by 4.4 percent in 2020, which is an improvement from the earlier 4.9% forecasted.
- There is a surge in some economies and the prospect of a second wave

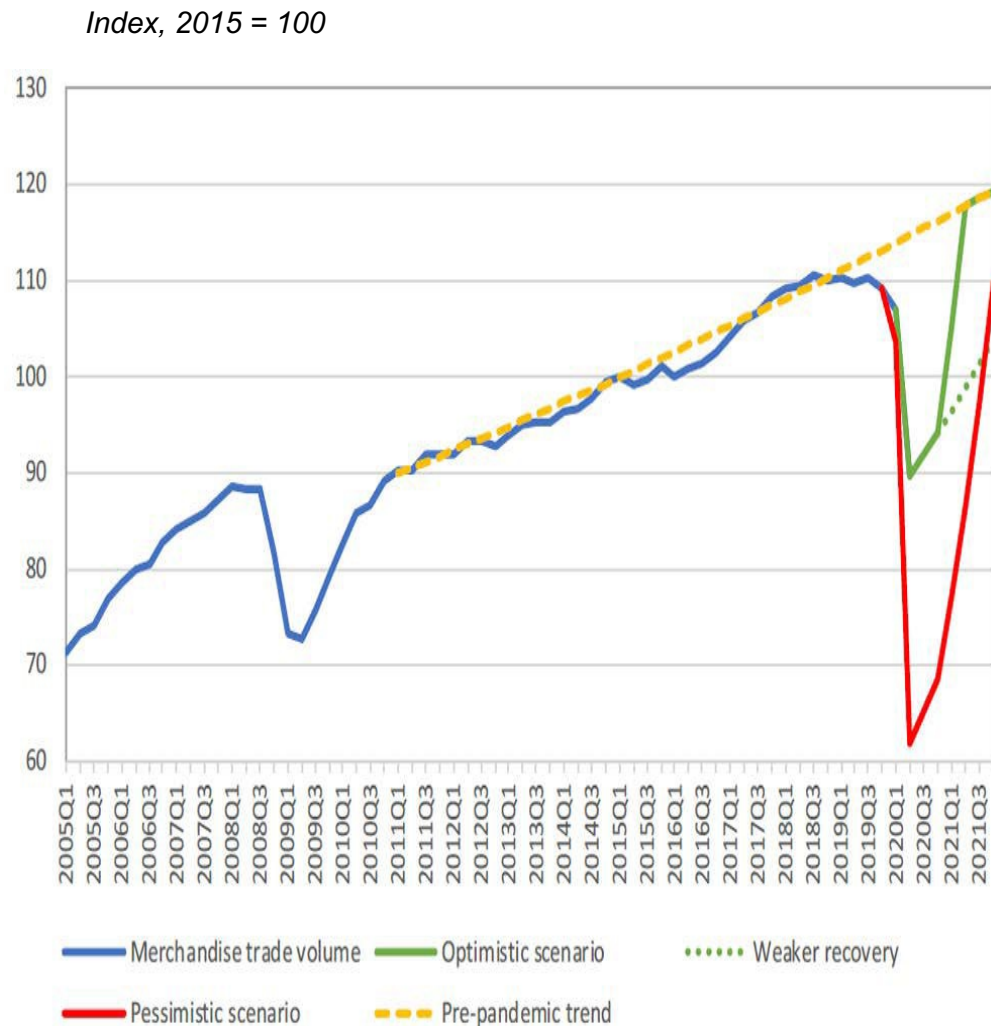


- Slump may be attributable to weakened demand, contraction in trade (projected to fall by 12%), restrictions on movement and social distancing.
- 2021 is projected to see a recovery but this is subject to the pandemic being controlled
- Trade is expected to grow by 8% next year as fiscal policies by governments and multilateral institutions take effect.
- The prospects of a vaccine in 2021 will serve as a boost.
- **However, if the situation persist longer and further restrictions are imposed, growth targets may be at risk.**

Source: IMF & WTO

ECONOMIC IMPACT

World trade expected to drop sharply in 2020, but not as worse as economist feared in April 2020



Source: WTO/UNCTAD and WTO Secretariat estimates.

- World merchandise trade shrank by 3% (y-o-y) and an 18.5%(y-o-y) in Q1 and Q2 2020 respectively.
- After Q1 performance, WTO economists projected an optimistic decline of 13% for 2020, while holding a pessimistic outcome at 32% drop from the previous year performance
- The above perspectives were driven by the high level of uncertainty regarding the pandemic's severity and economic impact within various regions.
- However due to the rapid response by many governments, world trade would need to grow by 2.5% each for the remaining two quarters of 2020, to achieve the optimistic projection of the 13% decline.
- There is some level of uncertainty regarding 2021 trade performance, fuelled by a potential second wave of Covid- 19 infections and the ripple effect of a weaker economic growth from 2020
- Social distancing measures and restrictions were fully in force in April and May 2020. Global commercial flights were down by 74% between Jan – April 2020, but have since risen by 58% through mid-June.
- Container port throughput also showed signs of recovery in June.

ECONOMIC IMPACT

The crisis has disrupted regional and global trade and slowed demand for Africa's agricultural export products, putting jobs and livelihoods at risk

Fruit, vegetables, and nuts

Between \$500 million and \$2 billion could be lost in the export of fruit, vegetables, and nuts alone owing to supply-chain disruptions as flights are cancelled and cargo backlogs lead to spoilage.

Cocoa

The closure of some chocolate factories in the second quarter and early third quarter of 2020 in Europe, North America, and China is affecting the demands for cocoa. Any demand and price reductions could result in lost value up to \$2 billion and affect two million farmers in Ghana and Côte d'Ivoire.

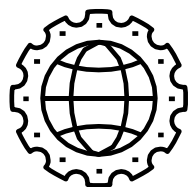
Coffee

The International Coffee Organization is already reporting a reduction in exports of about 4 percent over the same time last year, with increased price volatility. The potential loss in value could be between \$100 million and \$200 million.

Flowers Kenya—

which in 2018 accounted for 85 percent of sub-Saharan Africa's flower exports, valued at around \$600 million—has been heavily affected as almost all of its orders were cancelled in late March. The Kenyan Flower Council estimates that as much as \$400 million to \$600 million in revenue may be lost to the sector in 2020.

Sub-Saharan Africa expected to face its first recession due to the COVID-19 pandemic



Economic Impact

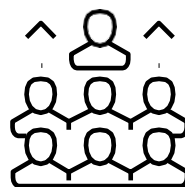
Economic growth in the sub-region is expected to

- decline from the 2019 level of 2.4% to -2.1% to - 5.1% in 2020, leading to the regions first recession in 25 years.
- Though the pandemic arrived late in Africa and without the high infection levels as seen in other parts of the world, sub-Saharan Africa is expected to be hit hard
- The region is expected to suffer between US\$37 billion and US\$ 79 billion in output losses for 2020. This is partly due to the sharp decline of growth among the regions key trading partners. The region was expected to record US\$1.8 trillion in output according to the IMF World Economic Outlook, October 2019.

COVID-19 shocks is hitting the regions three largest economies – Nigeria, South Africa and Angola. This is resulting from the continuous weak growth and

- investments, declining commodity prices globally.
- Generally due to the drastic restriction on trade and transportation, countries that depend on oil exports and mining will be the hardest hit.
- Consequently current account deficits are expected to widen as trade balances deteriorate as a result of falling exports.

Fiscal deficits will follow the same trend due to poor performance in many Government's revenues. This situation is more prevalent in commodity exporting, and tourism dependent countries.



Household Welfare

Social Impact

- From World Banks baseline assessments, its pessimistic view on the regions growth, places economic growth rate below the average regional population growth rate of 2.7%. Which may lead to severe impact on a large number of individuals if not managed well
- Household welfare losses in the region are expected to be 7% in an optimistic case and greater than 10% in a lengthy crises.
- However welfare losses can amount to 14% relative to the no-COVID-19 scenario if countries were to close their borders. This has been the case within most sub-regional blocks.

Food Security

- Local agro-food supply chains are already experiencing disruptions, including reduced access to inputs and services, labour movement, transport and roadblocks, and credit or liquidity.
- Weakening currencies is also contributing to rising prices of staple foods in may part of Africa
- Agricultural production is expected to drop by 2.6% optimistically, or 7% in the case of trade blockages. Food imports also declined by 25%.

GHANA CONTEXT

Number of new cases has seen a sharp decline with fewer than 1,000 active cases



Cases per region

Greater Accra Region	25,203
Ashanti Region	11,008
Western Region	2,,980
Eastern Region	2,429
Central Region	1,931
Bono East	785
Volta Region	682
Western North	651
Bono Region	550
Northern Region	547
Ahafo Region	528
Upper East	358
Oti	242
Upper West Region	88
Savannah	62
North East Region	19

Confirmed COVID-19 cases as at 3 November 2020

Cases overview

Ghana

Total cases

48,200

Recovered

47,169

Deaths

320

Worldwide

Total cases

47.4M

Recovered

31.6M

Deaths

1.21M

- As at 4 November 2020, all 16 regions in Ghana had confirmed positive cases of the coronavirus bringing the total number of confirmed cases to 48,200 with 47,169 recoveries and 320 deaths recorded.
- The hotspots are in the Greater Accra and Ashanti regions.
- Ghana has a lower death rate of 0.6% compared to the Global mortality rate of 2.6%. With regards to recoveries, Ghana has a recovery rate of 98% which is higher than the global recovery rate of 72%.

Measures by Government



Emergency response team



Closure of borders



Social distancing and easing of restrictions on public gatherings



Contact tracing



Fiscal measures – reducing CST, reducing expenditure, withdrawal from stabilization fund



Public education and awareness campaign on the virus



Ghana 'CARES' Programme



Absorption of utility charges for 3 months.



Gradual reopening of schools and universities



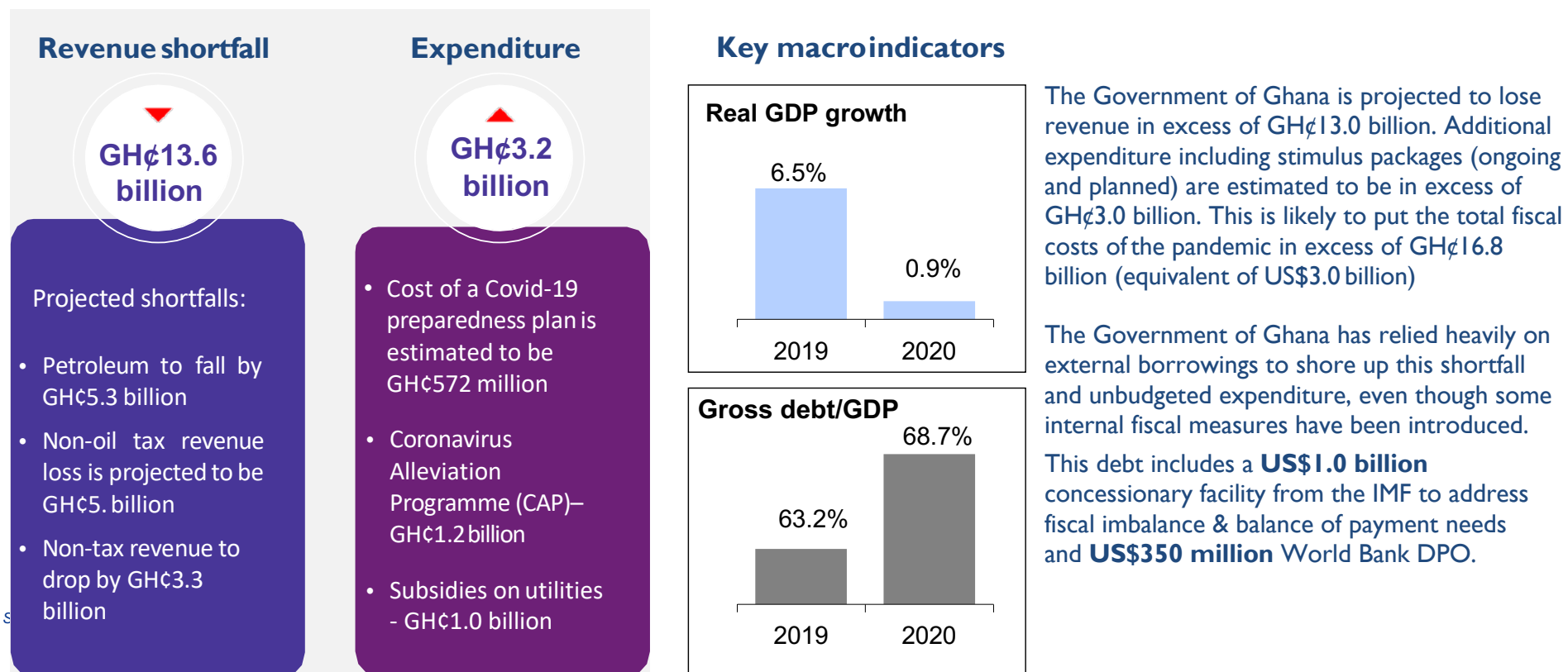
Monetary policies – reduction in MPR, primary reserve, capital conservation buffer

Source: Ghana Statistical service, GHS & Wikipedia

SOCIO-ECONOMIC RESPONSE

Impact of COVID-19 on Ghana's economy with associated rise in debt

Covid-19 has had a significant adverse impact on the economy of Ghana. According to the Ministry of Finance, economic growth will slow down to about 0.9%, one of the lowest in the recent history.



SOCIO-ECONOMIC RESPONSE

Summary of fiscal and monetary interventions by the Government

Fiscal

Internal

- ✓ Defer interest payment of GHC1.22 billion to 2022 and beyond through an arrangement with BoG
- ✓ Lower cap on Ghana Stabilization Fund from US\$300 million to US\$100 million to access GHC1.25 billion for Coronavirus Alleviation Programme
- ✓ Reduce expenditure (goods and services and capex) by GHC1.25 billion
- ✓ Reduce the proportion of Net Carried and Participating interest due GNPC from 30% to 15%
- ✓ Amend PRMA to access the Heritage Fund (US\$591 million)
- ✓ Electricity subsidy - GHC1.02 billion

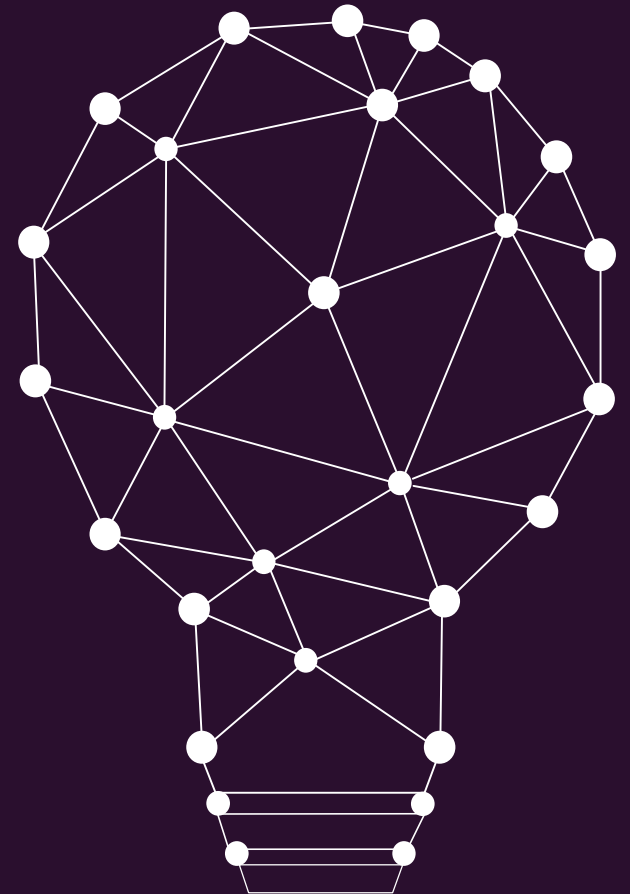
External

- ✓ IMF Rapid Credit Facility – US\$1.0 billion
- ✓ Covid-19 Preparedness Response Plan of US\$100 million
- ✓ World Bank DPO – US\$350 million

Monetary

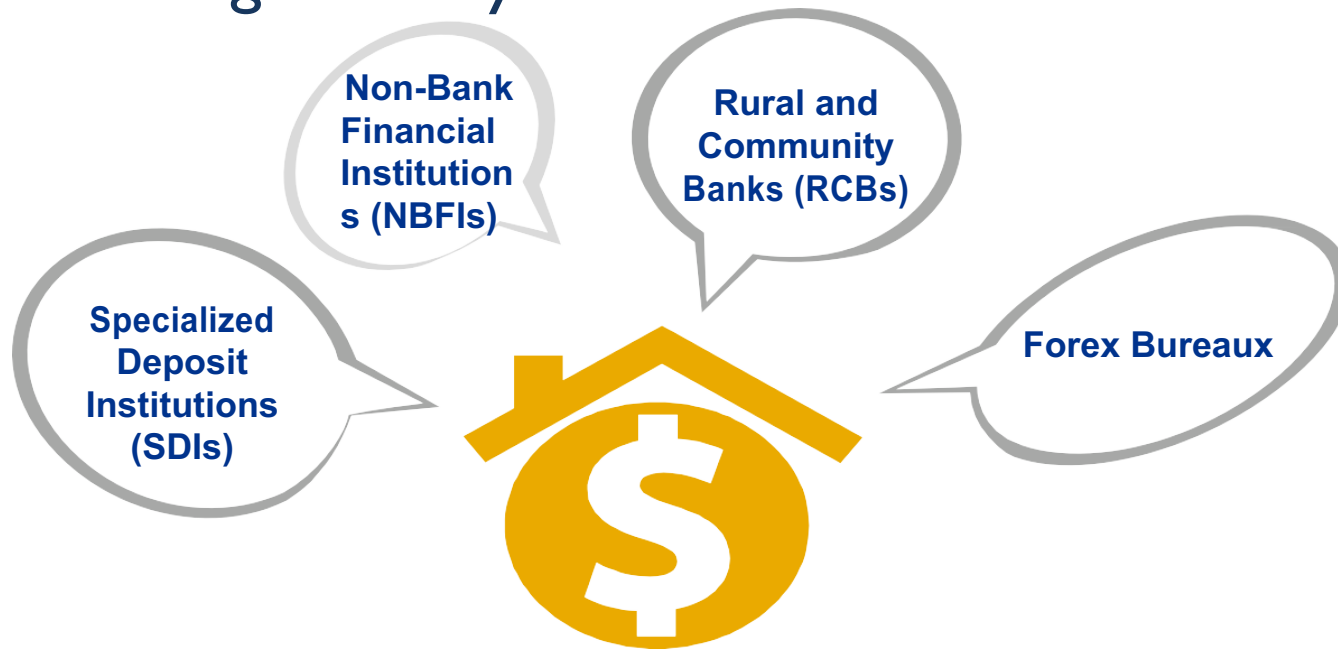
- ✓ Reduction in policy rate from 16% to 14.5%
- ✓ Reduction in primary reserve requirements from 10% to 8%
- ✓ Reduction in capital conservation buffer from 3% to 1.5%
- ✓ Reduction in CAR from 13% to 11.5%
- ✓ Suspension of distribution of dividends for the financial institutions for 2019 and 2020
- ✓ BoG financing of GHC10.0 billion
- ✓ provide syndication facility of GH₵3 billion to
- ✓ support industry especially in the pharmaceutical, hospitality, service and manufacturing sectors.
- ✓ grant six-month moratorium of principal repayments for selected businesses;
- ✓ reduction of interest rates priced-off the Ghana Reference Rate (GRR) by 200 basis points (2% per annum).

OVERVIEW OF SCOPE SECTORS



OVERVIEW OF SCOPE SECTORS

The Banking Industry



This study focuses on the impact of COVID-19 on SDIs. SDIs comprise commercial banks, Savings & Loans, Rural Banks & Microfinance institutions. These institutions are tailored to serve different sectors of the financial market

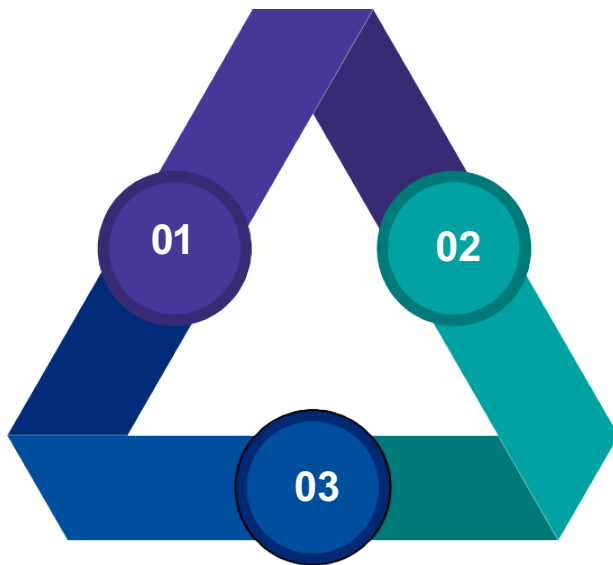
Number of SDIs in Ghana



*First National Bank and GHIL are in the process of merging

OVERVIEW OF SCOPE SECTORS

Snapshot of the industry – Jan 2020



Assets & Liabilities Items

- Total Assets – GHS129 billion (Dec 2020)
- 22.8% y-o-y increase
- Both domestic and foreign assets grew. Domestic rose by 23.1% to GHS118.69, while foreign assets 19.8% to GHS 10.38 billion
- Total deposits GHS 83.4bn, 22.2% growth from the 2018 position
- Driven by growth in domestic deposits of 22.4%, signifying renewed confidence in the sector following the 2018 reforms
- Domestic deposits 99.6% of total deposits
- Gross loans & Advances GHS 45.17 bn, grew by 23.8% from the 2018 position
- Net Advances GHS 39.96 by 25.7%
- Credit to enterprises accounted for 55.4% of 2019 total credit
- Top 3 sectors for credit; Services - 24%, Commerce & finance - 20.9% and Manufacturing 10.9%

Profitability

- Profitability stood at GHS 3.3 bn, represented a 37.7%
- Composition of banks income; Interest income (investments) 44.6%, Interest income (credits) 34.8%, fees and commissions 12.7 %

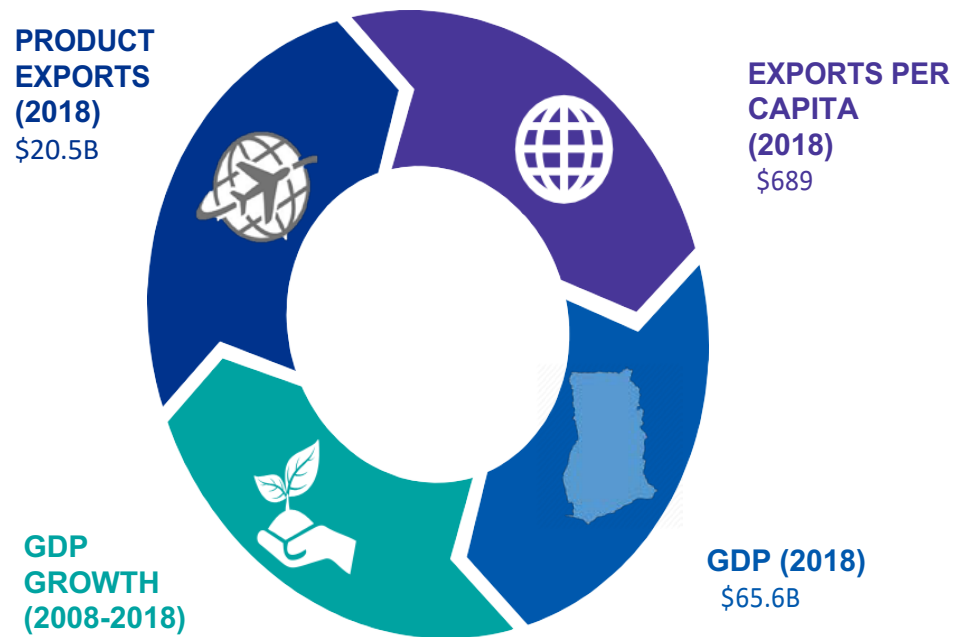
Capital items

- Industry capital base increased by 11.3% to GHS 9.63bn from a 2018 level of GH¢8.65 bn
- CAR was 17.5%
- Capital conservation buffer of 3.0%

Source: Bank of Ghana

OVERVIEW OF SCOPE SECTORS

Overview of Ghana's Export Sector



Source: *The Observatory of Economic Complexity 2018*

Trade: The top exports of Ghana are Gold (\$6.19B), Crude Petroleum (\$5.25B), Cocoa Beans (\$1.85B), Cocoa Paste (\$409M), Manganese ores (\$349M), Cocoa Butter (\$337M) and Coconuts, Brazil nuts and Cashews (\$246M).

Destinations: Ghana exports mostly to China (\$2.8B), Switzerland (\$2.46B), India (\$2.38B), South Africa (\$1.97B), and Netherlands(\$966M)

The export trade has played a key role in the socio-economic development of the country from historical times. Exports have played a strategic role in the process of income determination and in directing the growth path of Ghana's economy.

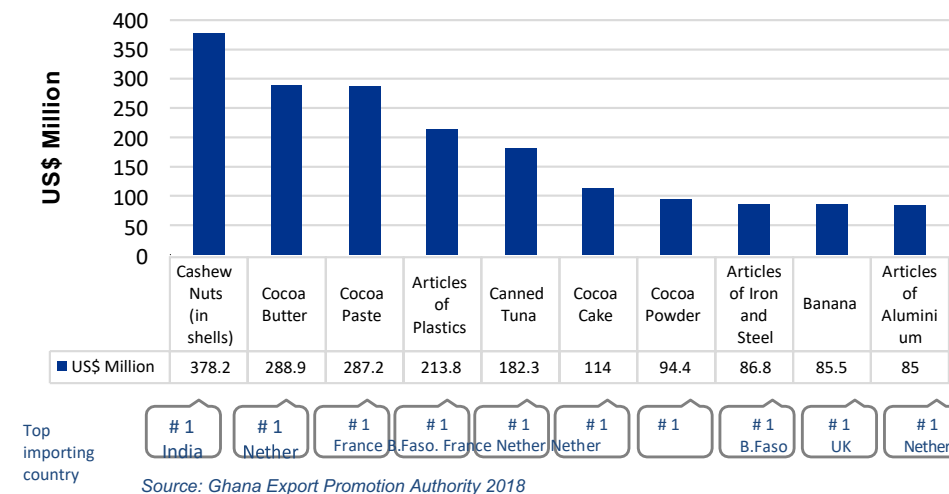
A change in exports affects almost all sectors of the economy specifically domestic investment, revenue and expenditure. The importance of exports in the economy is evident in the relative high proportion of the value of exports earnings in the Gross National Product (GNP) of the country.

In 2018 Ghana was the number 73 economy in the world in terms of GDP (current US\$), the number 71 in total exports, the number 84 in total imports, and the number 125 most complex economy according to the Economic Complexity Index (ECI). In 2018, Ghana exported \$20.5B and imported \$14.9B, resulting in a positive trade balance of \$5.64B. In 2018, Ghana's exports per capita were \$689 and its imports per capita were \$499

OVERVIEW OF SCOPE SECTORS

Non - Traditional Export Sector

Top Ten NTE Performers (2018)



TOP TEN NTE PRODUCTS		
Product	Country	Value (US\$)
Cashew nuts	India	184,599,143
Cocoa butter	Netherlands	174,970,223
Articles of plasticines	Burkina Faso	129,709,242
Cocoa paste	France	75,756,168
Canned tuna	France	69,116,650
Aluminum plates, sheets and coils	Netherlands	64,343,759
Cocoa Powder	Netherlands	46,289,932
Banana	UK	33,752,194
Cocoa cake	Netherlands	25,547,458
Iron/Steel circles, rod, sheets, billets	Burkina Faso	24,472,476

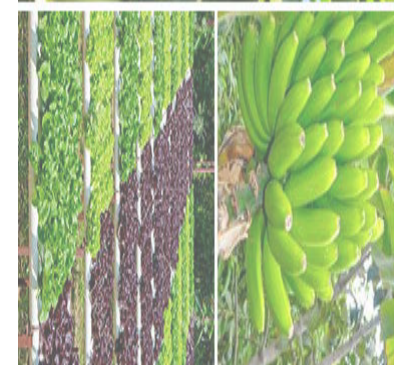
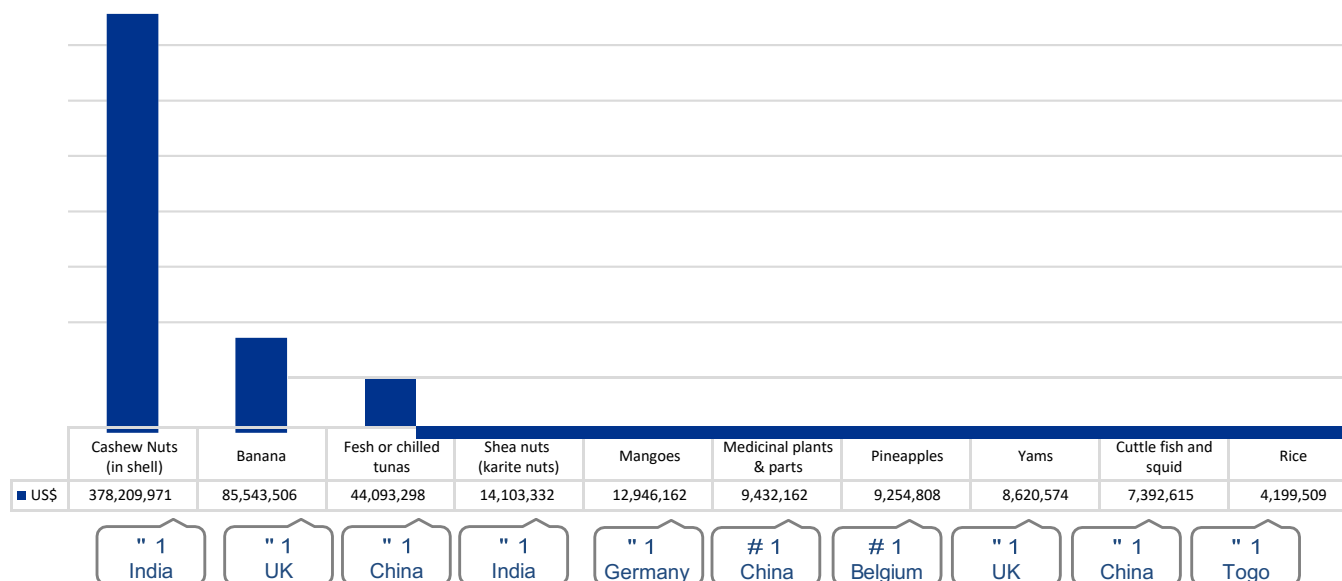
Source: Ghana Export Promotion Authority 2018

- The Non-Traditional Export (NTE) Sector is defined by the Export and Import Act, 1995 to cover all export products with the exception of the following: Cocoa Beans, Lumber and Logs, Unprocessed Gold and other Minerals, Electricity
- **The three sub-sectors of Non-Traditional Exports (Agricultural, Processed and Semi-Processed and Handicrafts)**
- Non-Traditional Export (NTE) earnings in 2018 amounted to US\$ 2.813 billion, representing 10% increase over the 2017 performance of US\$ 2.556 billion.
- The outstanding performance of exports in 2018 was primarily due to a 43.84% increase in exports of cashew nuts i.e. from US\$262.95 million in 2017 to US\$378.21 million in 2018.
- Cocoa derivatives contributed significantly to the 2018 kitty as in 2017.
- The contribution of the NTE sector to the overall merchandise export of Ghana was 18.83%, a little above the 2017 figure of 18.37%.

OVERVIEW OF SCOPE SECTORS

Export Performance: Agricultural Sub - Sector

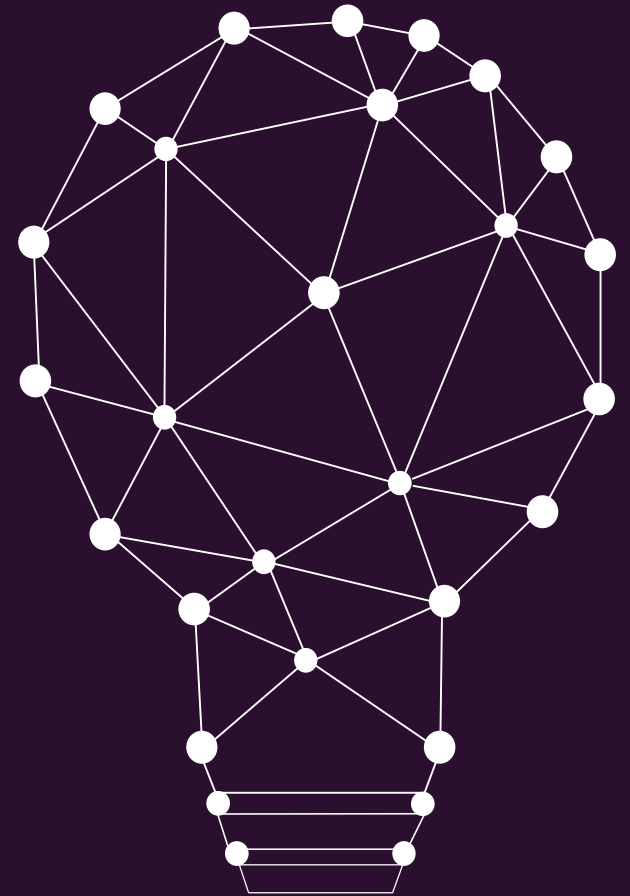
Top 10 Performers in the Agricultural Sub Sector (2018)



- Agriculture in Ghana consists of a variety of agricultural products and is an established economic sector, and provides employment on a formal and informal basis.
- Ghana produces a variety of crops in various climatic zones which range from dry savanna to wet forest and which run in east–west bands across Ghana. Agricultural crops, including yams, grains, cocoa, oil palms, kola nuts, and timber, form the base of agriculture in Ghana's economy. Main sub sectors are Crops Production (Food and cash crops); Animal Production (Livestock, Poultry and Fisheries) and Forestry.
- Export earnings from the Agricultural sub-sector in 2018 amounted to US\$591.036 million compared to US\$ 440.95 million earned in 2017, depicting an increase of 34.04%.
- The sub-sector contributed 21.01% to total NTE earnings in the year under review, compared to 17.25% in 2017.
- Cashew nut (in-shell) was the top earner of all agricultural produce representing 43.84% increase over 2017 performance Cashew contributed 63.99% to the total sub-sector earnings
- Rice was the lowest earner in the category, although recorded the biggest growth in the top ten earnings.
- The total value of the top ten earners of this category amounted to US\$ 573,795,969 representing 97.08% of the total agricultural subsector earnings

Source: Ghana Export Promotion Authority 2018

SURVEY RESULTS & FINDINGS



Q1

To what extent will Ghanaian banks segmented into commercial, savings and loans , and microfinance) be affected by the economic effects of the COVID-19 virus?



SURVEY RESULTS & FINDINGS

Cautious optimism over banking sector performance

“On the whole, the industry’s balance sheet growth year-on-year continues to be stronger, while half year 2020 performance was quite robust as the pandemic-induced weaknesses in the growth rates observed in the first quarter of 2020 seem to have improved somewhat in second quarter in response to the various policy measures announced by the Bank of Ghana in March and May 2020”
” BoG – July 2020



Assets

- Assets increased by **23.2% y-o-y** in Q2. Total assets was GH¢139bn.
- Assets grew by **3.5% in Q1** and by **7.8% in Q2**
- Credit grew by **16.3% y-o-y** to GH¢45 bn

Asset Quality Indicators NPLs

Broad performance

- Generally, sector non-performing loans (NPL) ratio reduced from **18.1% in June 2019 to 15.7% in June 2020** as a result of the banking sector clean-up. This may be as a result of credit recoveries, improved risk management and loan write-offs
- However, in the first and second quarters of 2020, the NPL ratio **increased by 1.2%** due to loan repayment challenges

Borrower Groups

- Private sector NPL ratio declined from **19.5% to 16.8% y-o-y**
- Public sector NPL ratio increased from **4.6% to 6.3% y-o-y**

Sectors

- NPL ratios for the agriculture, forestry and fishing sectors declined from **34.3% to 26.3%**
- Manufacturing NPLs declined, **25.3% to 18.4%**
- Commerce & finance saw an uptick in NPLs
19.1% - 22.2%

Liabilities



- Liabilities grew by **23.2% y-o-y**
- Deposits are **64%** of liabilities
- In Q1 deposits grew by **0.7%** and **rebounded in Q2 to 7.9%**

SURVEY RESULTS & FINDINGS

The banking industry remains profitable despite the high operating costs

Income



- Gross income growth in the half year (HY) of **2020 was 13.2%**, compared to 9.9% same period 2020.
- Profitability for the period increased by **15.5% to GH¢1.9 billion**

“The industry remains profitable although profitability continues to be adversely impacted by higher operational costs due to the impact of COVID-19” **BoG – July 2020**

“The industry remained sufficiently profitable during the first half of 2020 although increases in interest expenses, operational costs and higher loan loss provisions constrained profitability growth” **BoG – July 2020**

Profitability Indicators

NPLs

Income

- **Net interest income grew by 16.5% in HY 2020** (due to increased deposits and high cost of borrowing)
- **Net fees and commissions grew by 10.3%** due to increased usage of electronic banking products

Operational cost

- Operating Expenses rose sharply by **12.9% HY 2020**.
- **Other operational cost rose by 17.3% HY** (this cost is attributed to cost associated with safety protocols).

Impact on profitability

- Return on equity decline within the period to **June 2020, it ended the period at 20.6% from 21.2% in June 2019**.
- Return on assets also declined marginally to 4.1% y-o-y in June 2020 from 4.4% in June 2019

Expense



- Staff costs increased by 9.8% y-o-y
- Total provisions losses on loans & depreciation increased by 25% y-o-y
- Taxes increased by 10.5%

Source: Bank of Ghana

This publication was produced for the United States Agency for International Development. It was prepared for USAID/Ghana Monitoring, Evaluation and Technical Support Services II (METSS II) Project by KPMG, Ghana

SURVEY RESULTS & FINDINGS

Three stay – awake areas for banking institutions



Deposits and investments

About 40% of the sampled institutions experienced a drop in their deposits and investments as majority of customers were restricted from physically making deposits at the institutions.



Loan default and repayment

About 56% of institutions asserted that loan default will be one of the key areas impact of Covid-19. This is expected to result in an uptick in the NPLs after seeing a decline in 2019 following the banking sector clean-up.



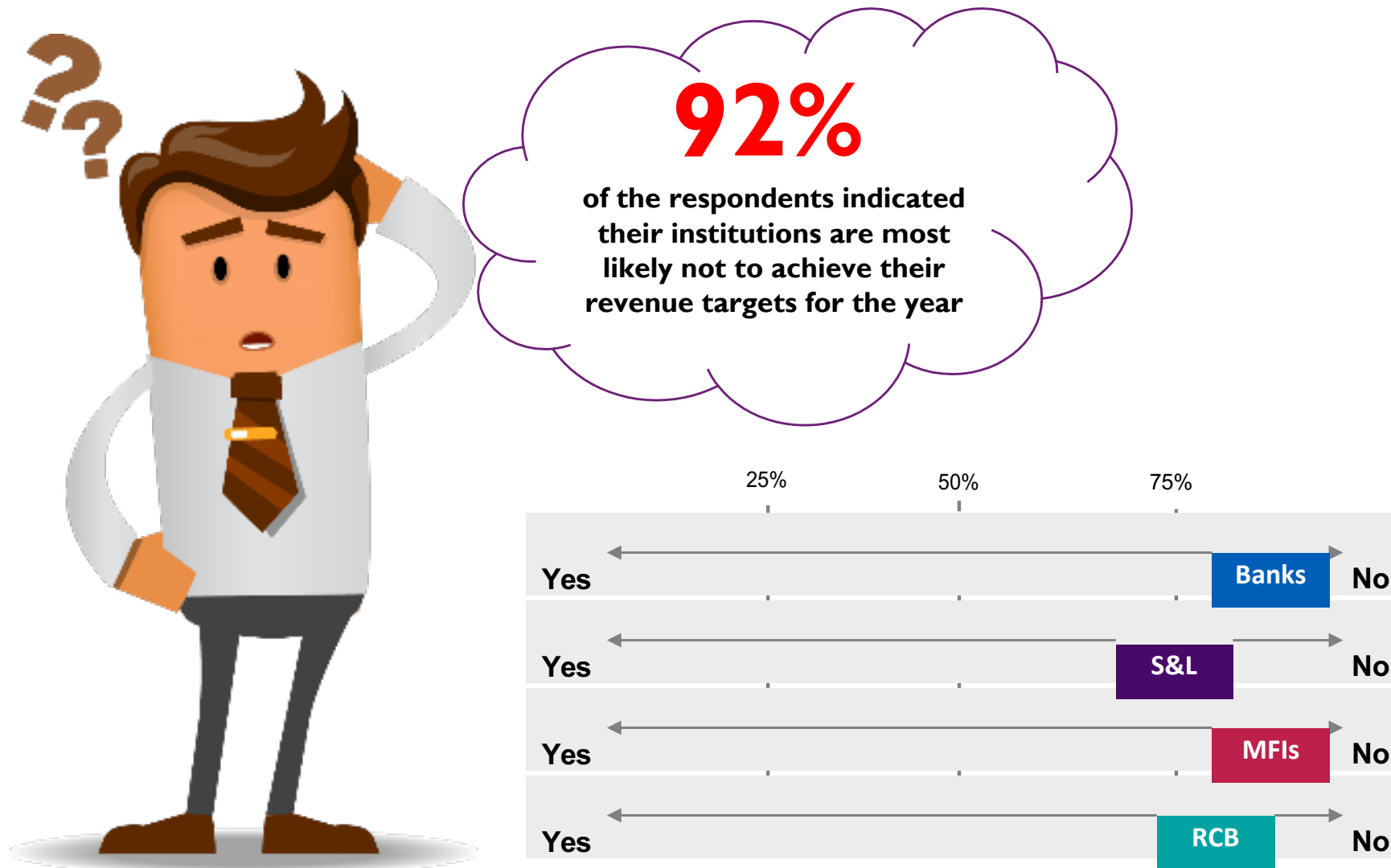
Operating cost

The increasing costs as a result of the pandemic such as loan default, closure of branches and general costs incurred from adhering to COVID-19 protocols are projecting lower profitability levels for most institutions

“The industry remains profitable although profitability continues to be adversely impacted by higher operational costs due to measures put in place to limit the impact of the pandemic on banks’ operations to ensure business continuity and higher loan provisions due to repayment challenges by clients who have been severely affected by the pandemic” **BoG**

SURVEY RESULTS & FINDINGS

Will Revenue targets be met?



Source: Bank of Ghana, Survey, KPMG Analysis

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SURVEY RESULTS & FINDINGS

There are concerns regarding interest income from Government Securities

Exposure to government securities



10% of respondents indicated that, they were exposed to Government securities



Concerns were on interest income associated with Government Securities



MFI

9.5% of total MFIs who responded, indicated that they were exposed



Of the MFIs who were exposed, 50% expect an adverse impact of up to 10% on interest income.



The remaining 50% expect an adverse impact of between 10% -20% on interest income.

RCB

20% of total Rural Banks who responded, indicated that they were exposed



All RCB's who were exposed, expect an adverse impact of 10% -20% on int. income.

“Across the major borrower groups, the private sector NPL ratio declined from 19.5 percent to 16.8 percent over the year, but **public sector NPL ratio marginally increased from 4.6 percent to 6.3 percent during the period**” BoG sector view

Banks

S&L

Commercial Banks and Saving & Loans institutions surveyed indicated they were not exposed to Government securities

Source: Bank of Ghana, Survey, KPMG Analysis

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SURVEY RESULTS & FINDINGS

Will revenue targets be met?

Will revenue targets be met

92%

Of respondent anticipate they will not achieve revenue targets

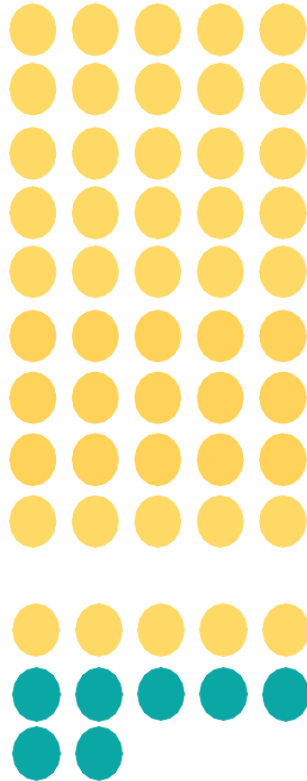
At the category of SDI level

Banks 100%

S&L 75%

MFIs 100%

RCB 81.3%



Variation of interest income from targets

	0-10%	11- 20%	21- 30%	31% ▲
Banks	67%	22%	0%	11%
S&L	0%	33%	0%	67%
MFIs	9%	0%	45%	45%
RCB	20%	20%	20%	40%

MFI and RCBs appear to be heavily impacted with over 40% projecting interest income will drop by more than 30%

Variation of fee income from targets

	0-10%	11- 20%	21- 30%	31% ▲
Banks	44%	22%	22%	11%
S&L	33%	0%	33%	33%
MFIs	9%	9%	27%	55%
RCB	0%	33%	33%	34%

Source: Bank of Ghana, Survey, KPMG Analysis

SURVEY RESULTS & FINDINGS

Will revenue targets be met? Cont'd

Variation of commission income from targets

	0-10%	11- 20%	21- 30%	31% ▲
Banks	50%	33%	17%	0%
S&L	0%	0%	50%	50%
MFIs	11%	0%	44%	44%
RCB	25%	25%	0%	50%

Commission income is expected to see significant variation from annual target. All S&L and over 80% of MFIs projecting a drop of over 20%, while 50% of RCBs projecting commission income to drop by over 30%.

Variation in other income


	0-10%	11- 20%	21- 30%	31% ▲
Banks	33%	33%	0%	
MFIs	33%	0%	0%	
RCB	0%	0%	0%	

A third of the commercial banks project drop in other income by more than 30% Majority of MFIs and RCBs project drops of more than 30% from target.

Source: Bank of Ghana, Survey, KPMG Analysis

SURVEY RESULTS & FINDINGS

How healthy are you on non-performing loans (NPLs)?

 **94%**
Of respondents had NPLs in their credit portfolio



Pre – COVID-19

38%
Of respondents had NPLs ranging between 0-10%

Post – COVID-19

94%

Of respondents expect NPLs to increase as a result of exposure to clients impacted by COVID-19

NPL exposure level for SDIs surveyed

NPL Level	0-10%	11 - 20%	21-30%	31% ▲
Banks	56%	22	11%	11%
S&L	25%	50%	25%	0%
MFIs	16%	26%	26%	32%
	60%	40%	0%	0%

Institutions worried about an uptick in their NPL ratio

Banks 75%

S&L 50%

MFIs 100%

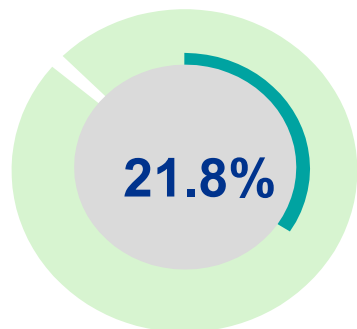
RCB 100%

Source: Bank of Ghana, Survey, KPMG Analysis

SURVEY RESULTS & FINDINGS

What is your expected exposure - NPLs

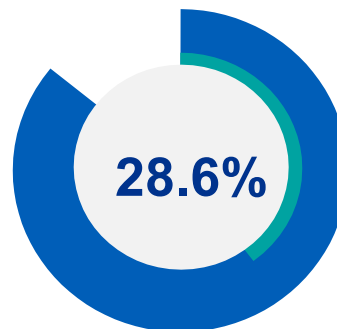
Optimistic scenario



Under this scenario, SDIs estimate an average of 21.8% of NPLs.

The maximum ratio under this scenario is 50% and this is more pronounced for RCBs and MFIs.

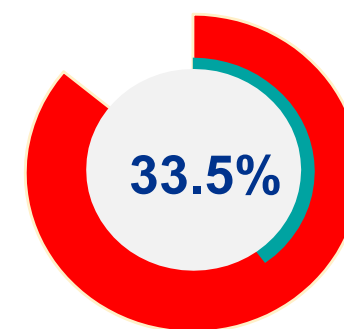
Most likely scenario



Under the most likely scenario, SDIs estimate an average of 28.6% of NPLs.

The maximum ratio under this scenario is 90% and this is more pronounced for RCBs and MFIs.

Pessimistic scenario



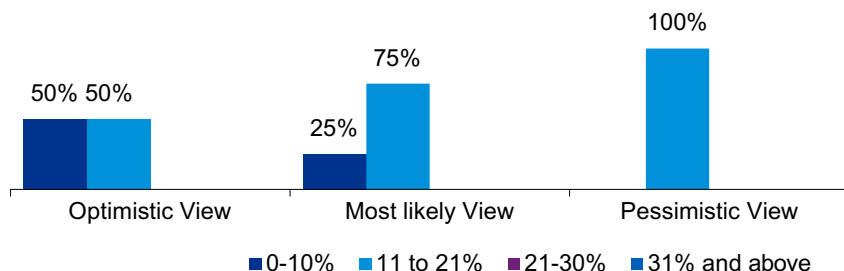
In the optimistic scenario, SDIs estimate an average of 33.5% of NPLs.

The maximum ratio under this scenario is 95% and this is more pronounced for RCBs and MFIs.

SURVEY RESULTS & FINDINGS

What is your expected exposure - NPLs

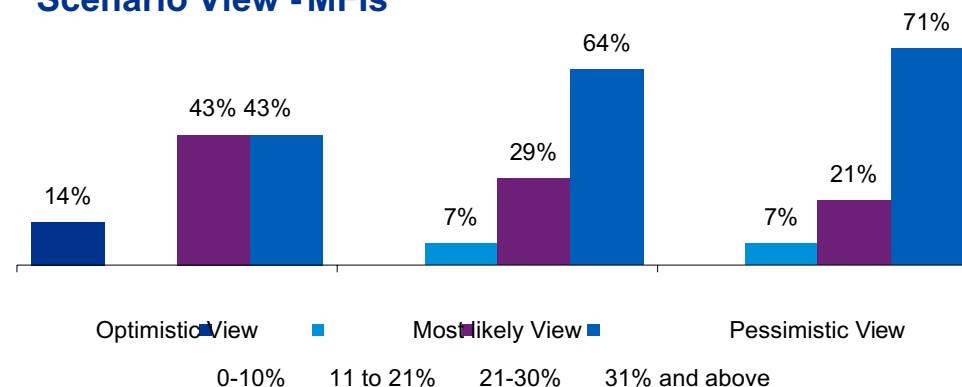
Scenario View - Commercial Banks



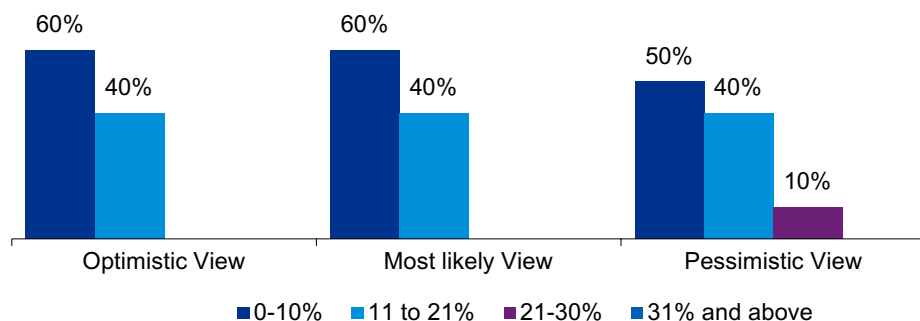
- The maximum exposure expected by commercial banks was an uptick of 11% - 20% in NPLs
- Optimistically, Banks were split evenly between 0% - 10% and 11% - 20%
- In a worse case scenario, all commercial banks expect and increase between 11%- 20% in their NPL ratio

- In the pessimistic view of MFIs, over 71% of respondents anticipated and increase in NPL ratio of above 30%
- The most likely view was close to the pessimistic view, and interestingly none of the MFIs expected a marginal increase to 10%
- Only 14% of MFI respondents expected an increase of 0-10%

Scenario View - MFIs



Scenario View - RCBs



- Rural and Community Banks, interestingly did not expect significant changes across the three scenarios
- However for both optimistic and most likely views, RCBs expect the highest uptick to be 11% to 20% on NPLs

SURVEY RESULTS & FINDINGS

50% of respondents experienced panic withdrawals

Of the institutions who experienced panic withdrawals,

MFIs reported the highest count representing

63%



52% of affected institutions also reported deposits dropped by more than **10%**

71%

of affected Rural banks saw a drop in deposits between 6% - 10%

Banks who responded did not experience panic withdrawals

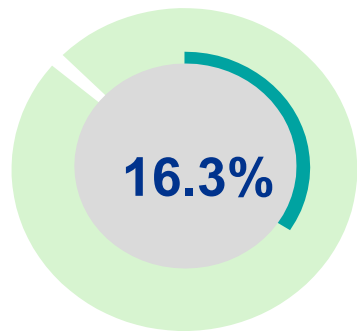
“Across the sector, growth in deposits declined to 0.7% Q1 2020, however Q2 2020 saw significant improvement to 7.9%. Though still a decline from the 10.7% recorded HY 2019” **BoG**

Source: Bank of Ghana, Survey, KPMG Analysis

SURVEY RESULTS & FINDINGS

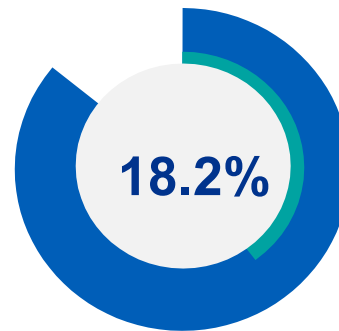
Increases in operating costs will vary based on each scenario

Optimistic scenario



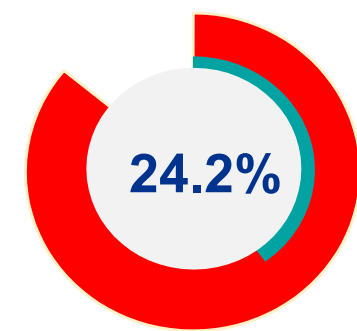
Over 90% of the financial institutions anticipate that operating costs will increase. Under the optimistic scenario, cost will rise by 16.3%

Most likely scenario



Under the base case, operating costs are expected to increase by an average of 18.2%. The maximum increase is expected to be 35%.

Pessimistic Scenario



Under the worst case scenario, operating costs are expected to increase by an average of 24.2%. The maximum growth in cost is projected to be 50%

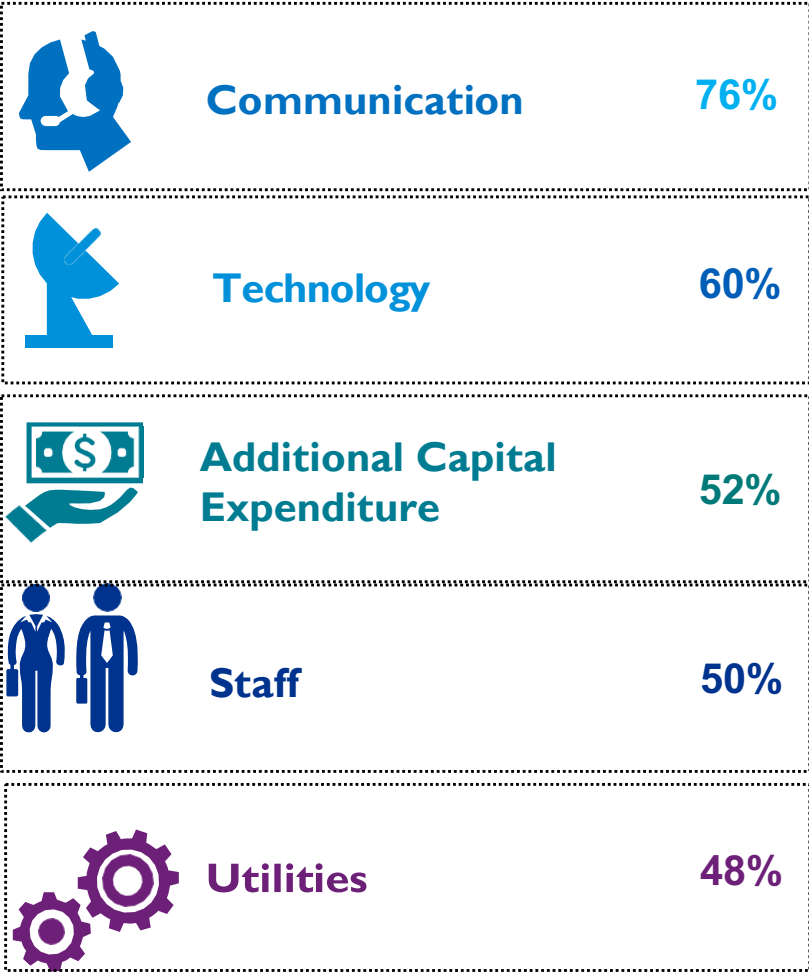
The key drivers of the changes in operating costs are increases in communications, technology, and staff costs.

SURVEY RESULTS & FINDINGS

Communication and technology related cost will be significantly impacted by the new way of working

Operating cost areas to be impacted

% of respondents



Top three cost areas of concern

Banks	Communication	Additional Capital	Technology
MFIs	Additional Capital	Technology	Communication
RCB	Communication	Technology	Staff

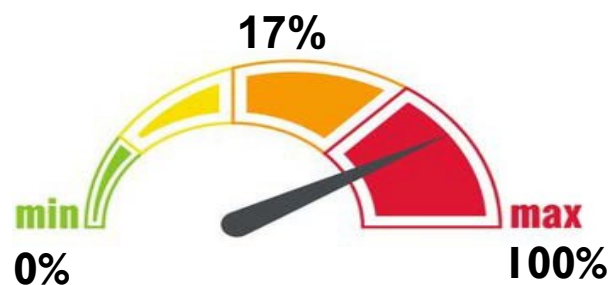
“Four key cost lines for the sector were; **interest expense, provisions, other operating expense** (largely pandemic related) and **staff cost**” BoG

Source: Bank of Ghana, Survey, KPMG Analysis

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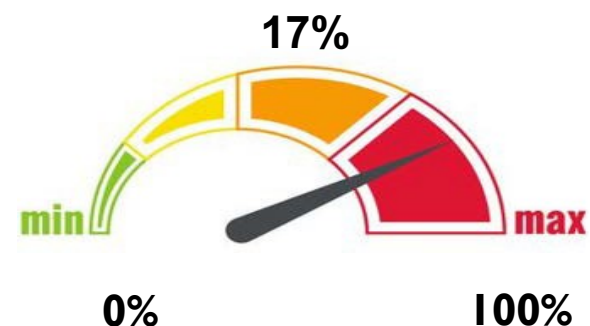
Expected increase in key cost lines

Technology



Technology related costs i.e purchase of laptops, expansion of IT infrastructure, will increase by an average of 17%.

Communication



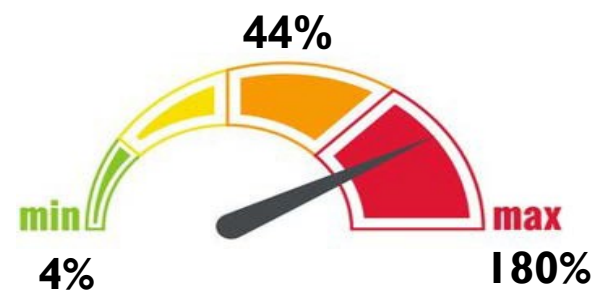
Communications costs mainly purchase of data expected to also rise by 17%

Staff costs



Staff related costs expected to increase by 20%.

Other costs

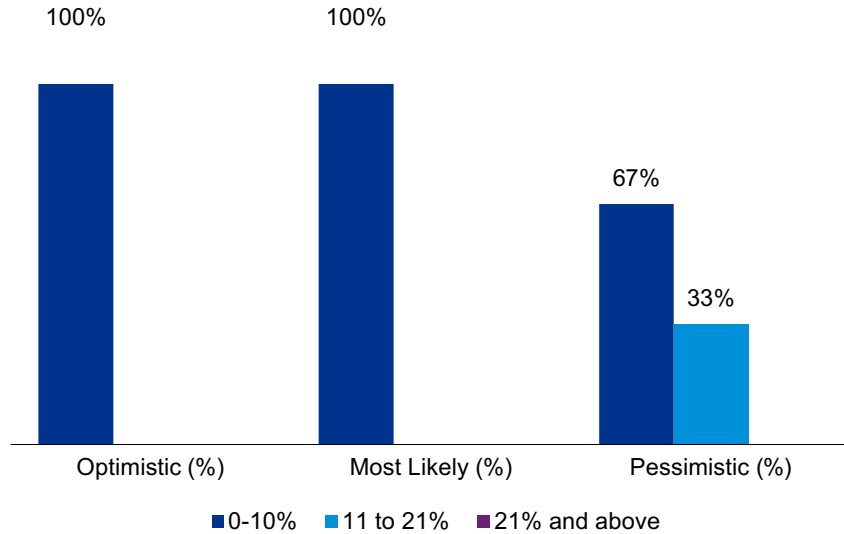


Other costs include Covid-19 related expenses such as PPEs, sanitisers, etc. For some institutions, these are new cost lines in the operating costs.

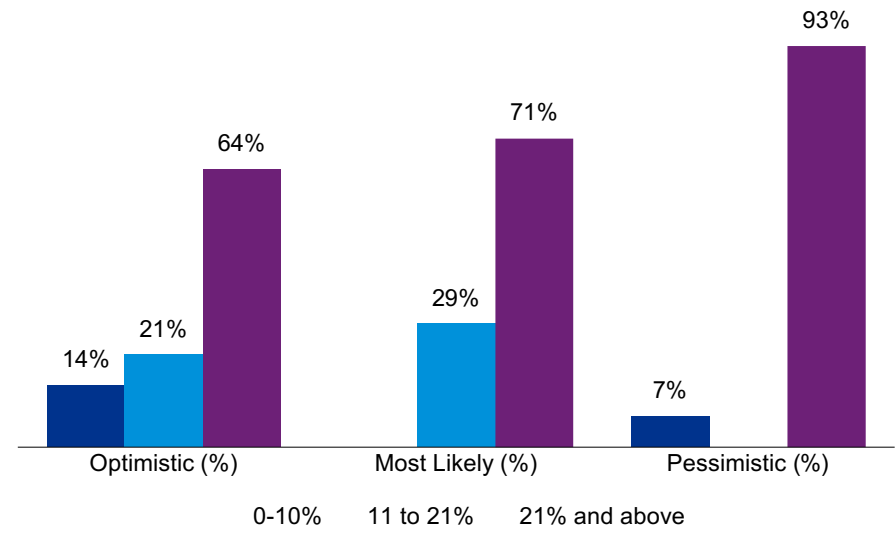
SURVEY RESULTS & FINDINGS

How are operating costs going to fare against budget

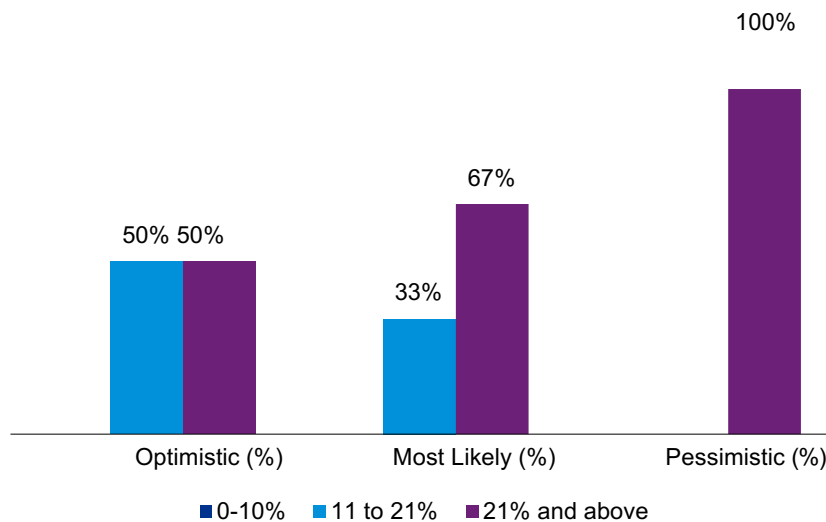
Scenario View for Commercial Banks



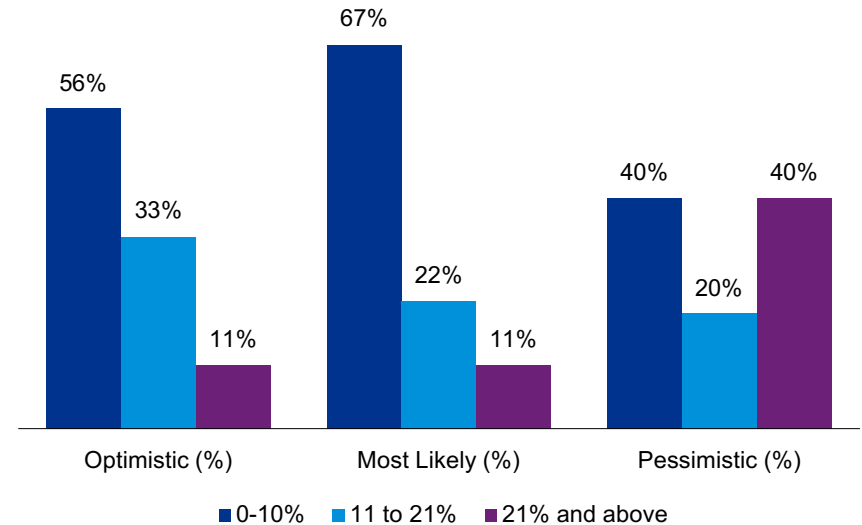
Scenario View for Microfinance



Scenario View for Savings & Loans



Scenario View for Rural Banks



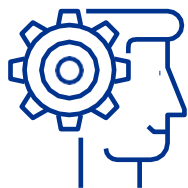
Q2

What is the capacity of the Central Bank of Ghana to address large levels of loan defaults and its capacity to undertake orderly problem bank resolution?



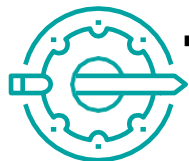
SURVEY RESULTS & FINDINGS

BoG is well able to manage potential issues affecting stability of the financial industry



Role of BoG

- As part of its financial stability monitoring and supervision of the banking industry, the Central Bank identified two risks associated with the impact of COVID-19 on the Industry:
 - **liquidity risk** (increasing withdrawals against low deposits)
 - **credit risk** (high rate of default)



Assessment

- Resulting from the observation above, **BoG conducted industry assessments in January, March and June 2020** to assess the resilience of Ghana's banking system to the shocks identified.
 - The credit risk stress test focused on the effect of deterioration in asset quality on the banks' solvency and utilizes the loan migration approach.
 - The liquidity stress testing assessed the impact of a panic withdrawal on the liquidity positions of banks. Specifically, it assesses the effect on liquid positions of banks after an assumed run continues for up to ten (10) working days (two weeks)

Source: Bank of Ghana –Banking Sector Development report – July 2020



Action

- From the survey, BoG implemented the COVID-19 Policy measures in March and May 2020.
- These measures were to support strong capital accumulation and liquidity buffers.
- Measures implemented have been detailed in the “socio-economic response to COVID-19” section of this report



Results

- “The stress tests show that the banking sector remains liquid and well-positioned to absorb liquidity shocks”
- “The development reflects the gains from the recent banking sector reforms and the COVID- 19 policy responses”
- “The survival rate of the sector to liquidity runs remains high in the first five working days across the various scenarios in all the stress periods”
- The prompt policy response to the COVID-19 pandemic including the freeze on dividend pay- out,
- “Reduction in the Cash Reserve Requirement and the Policy Rate supported the sector to build-up reserves to withstand the shocks.”

Q3

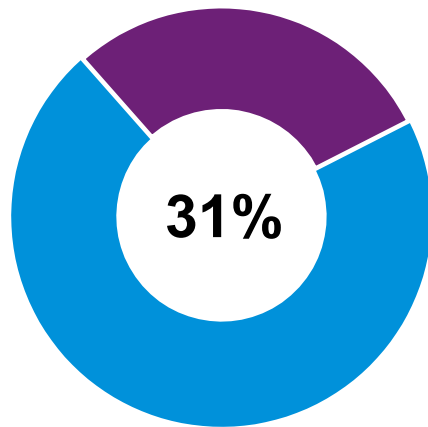
To what extent will Ghanaian commercial banks be able to continue to lend to export-oriented firms in the agriculture sector to support their continued operations and future growth, or to lend to other opportunities that may have emerged from COVID-19 situation?

- To what extent would the GoG's Coronavirus Alleviation Program stimulate the banks to make loans?
- To what extent have GoG policy measures like lowering reserve requirements and decreasing the policy rate freed liquidity for the banks to loan to businesses?

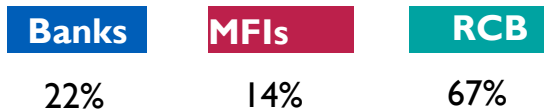


SURVEY RESULTS & FINDINGS

Do you have Agric-specific products?



Of the sampled financial institutions responded that they had Agric-specific products



16

Agric related loan products were on offer to customers of institutions who have agric-specific operations



Amongst the agric-specific products are:



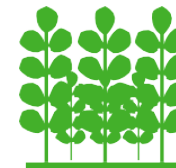
Dahiada Loan



Rural Enterprise Programme



Enterprise Supply Chain Financing



Agric Loan



Poultry Feed Producer Loan

Out of the institutions surveyed, **Commercial Banks** appear to have tailored agric-specific loan products for their clients. However, **MFIs** and **RCBs** who are more positioned to encounter agric related requests, provided commercial loans for to actors within agric value chain.

SURVEY RESULTS & FINDINGS

How the banking sector views export oriented firms in agriculture

“NPL levels within agriculture, forestry, and fishing, recorded a sharp decline from 34.3% to 26.3% but still maintain the highest NPL share within the banking sector” **BoG – June 2020**

The decline in NPLs can be attributed the recent banking sector clean-up which resulted in some loan recoveries and write-offs in 2018 and 2019. Due to the nature of its business cycle, the agriculture, forestry and fishing sector face loan repayment challenges, contributing to a high NPL share.

Anticipation, Concerns and Optimism of some SDI institutions

“We hope to identify and lend to very good names in the sector”

“Delay in loan repayment due to market challenge”

“Increased lending to clients in enterprise supply chain”

“Increased lending to support production”

“Increased lending for equipment”

“Rural Enterprise Programme is anticipated to increase from GHS157000-GHS400,000”



A slice of the issue for four commercial banks: exposure to export-oriented firms in agriculture.

Bank 1 0.16%
of total loans

Bank 2 1.27%
of total loans

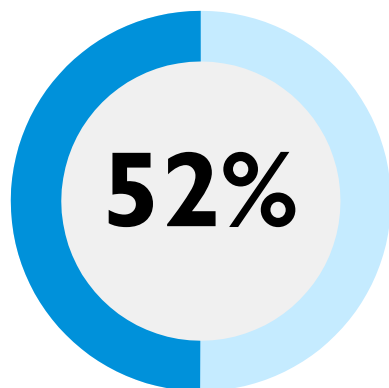
Bank 3 2.64%
of total loans

Bank 4 5%
of total loans

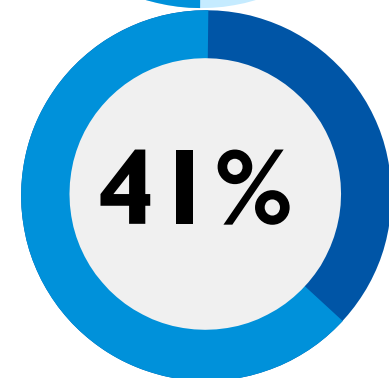
Bank 5 6%
of total loans

SURVEY RESULTS & FINDINGS

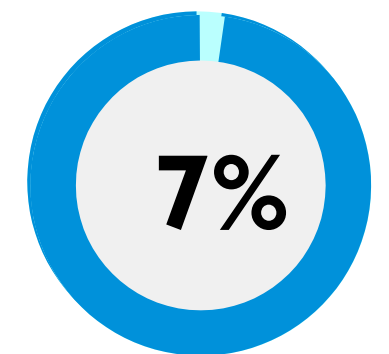
Is there the capacity and willingness to lend to export – oriented firms in agriculture?



Sampled financial institutions stated that they had **no capacity** to lend to export oriented firms



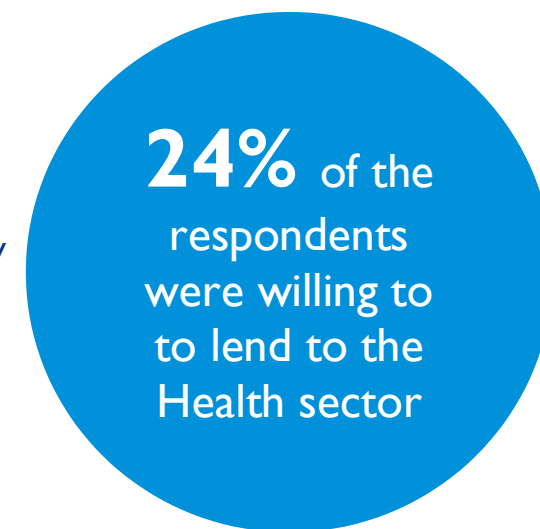
Sampled financial institutions stated that they **had the capacity** to lend to export oriented firms **but were not willing**



Sampled financial institutions stated that they **had the capacity and were willing** to lend to export oriented firms

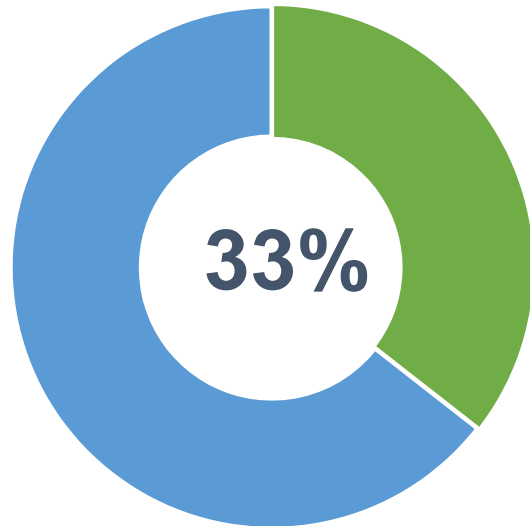
However, other sectors these institutions were willing to lend includes:

- Health and Pharmaceuticals
- Food and Beverages
- Transportation
- Commerce and Trade
- Technology
- Tourism and Hospitality
- Manufacturing
- Textiles and Garment
- Education
- Water and Sanitation
- Other Services

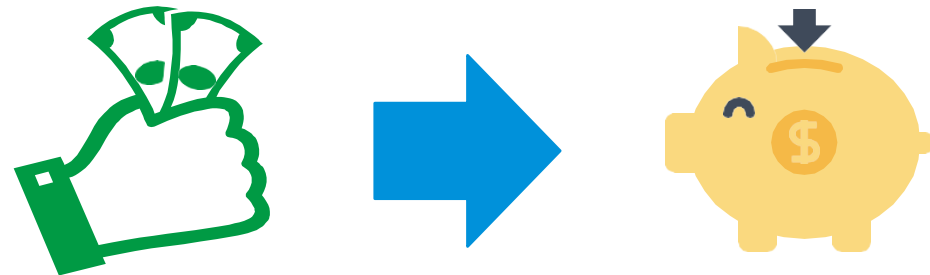


SURVEY RESULTS & FINDINGS

Counterpart Funding from Participation on CAP

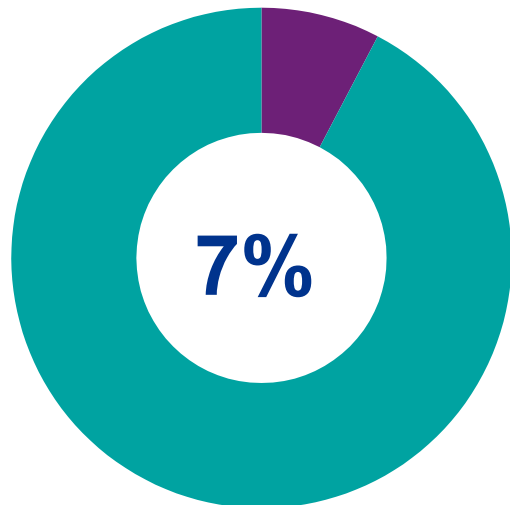


Of the sample respondents indicated their participation in the Coronavirus Alleviation Programme by providing counterpart funding.



The allocation of funds to support lending to firms impacted by the pandemic spans within the ranges **GHS20,000 – GHS100 million**

Moratorium to Export Oriented Firms

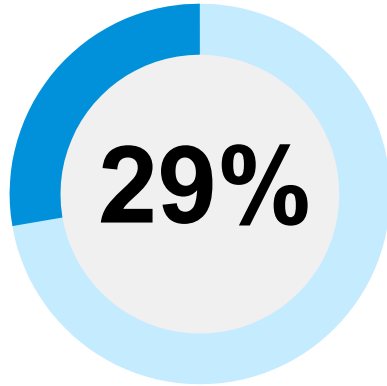


Of the sample respondents indicated they provided moratorium for export-oriented agricultural firms

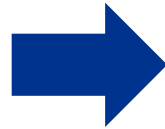
SURVEY RESULTS & FINDINGS

Allocation to support lending to firms impacted by the pandemic?

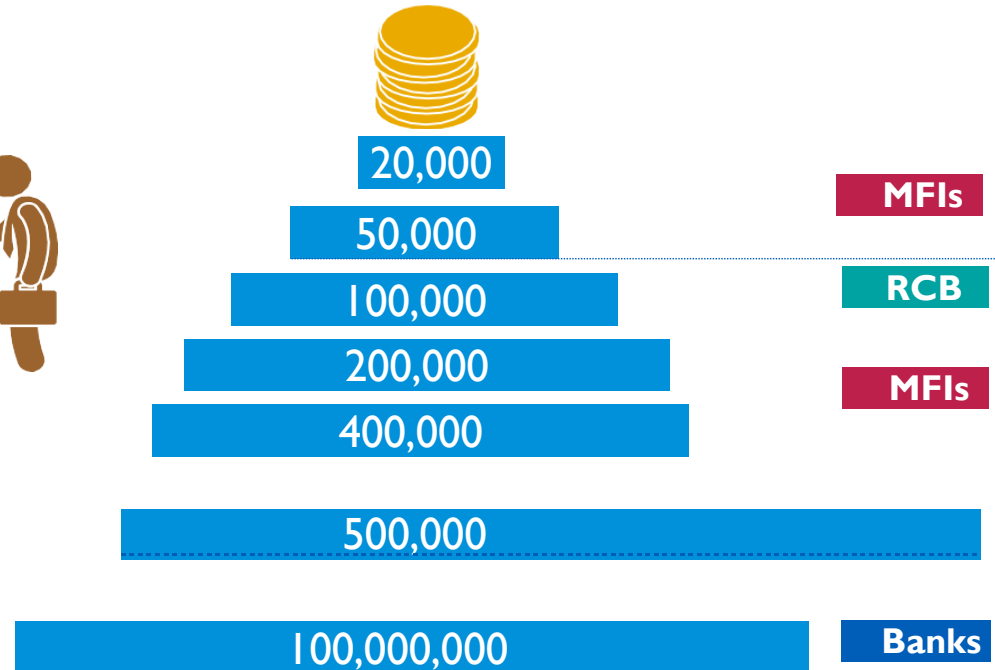
Respondents with specific allocation



Of respondents had specific allocations to support lending to firms impacted by the pandemic



- Commercial Banks
- Microfinance
- Rural Banks



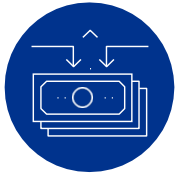
Allocation of these funds by SDIs to support lending to firms impacted by the pandemic spanned between the range of GHS 20,000 – GHS 100 million

SURVEY RESULTS & FINDINGS

BoG Measures

Measures to support banks in lending to other sectors

- The Bank of Ghana (BoG) decreased the monetary policy rate by 150 basis points to 14.5%. In response to this reduction, 89% of the respondents reduced their lending rate within the ranges of 0 - 5%.



Reduction capital conservation buffer

- Following the measures implemented by BoG, some SDIs saw some significant increase in liquidity, with others too having no impact on their liquidity. While for others the impact on their liquidity remained stable



Reduction in primary reserves

- Responses of the sample institutions revealed theff:
 - Additional liquidity for some SDIs
 - Other SDIs also had to free up previous reserves
 - Increased cash available for business

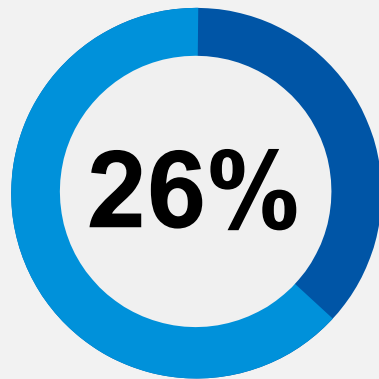


Deferring on interest payments on non-marketable instruments

SURVEY RESULTS & FINDINGS

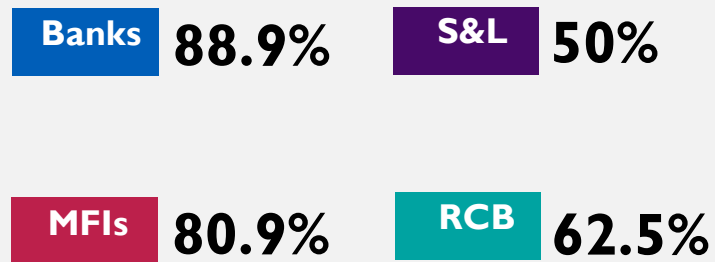
Reduction in lending rates as a result of GoG & BoG COVID-19 policies

Respondents yet to reduce lending rates



Of respondents had not reduced lending rates

Percentage breakdown of respondents who had reduced lending rates within each category of SDI



Reduction of lending rates by SDIs

	0-2%	3-5%	6-10%	11% ▲
Banks	7	1	0	0
S&L	2	0	0	0
MFIs	15	1	0	1
RCB	8	0	1	1

86% all of the institutions who reduced interest rates were within the range of 0% to 2%. This is in response to the reduction in the monetary policy rate by the Bank of Ghana.

Some banks have responded to fiscal & monetary policies



- 6 months repayment moratorium
- 2% reduction in lending rate
- Waiver of charges on interbank instant transfers on its digital channels
- Free mobile money transfers up to GH¢100



- Reduced interest rate for personal loans to 17.5%
- Further 3 month repayment holiday where required
- Salary advance application via app
- Relief package for borrowers



- Moratorium of up to 6 months on mortgages
- Moratorium of up to 6 months on personal loans
- Automatic waivers for the next 3 months on overdrawn account fees



- Free mobile money transfers up to GHS100
- 0.75% flat rate on mobile money transfers above GH¢100
- Relief programs for clients in vulnerable sectors



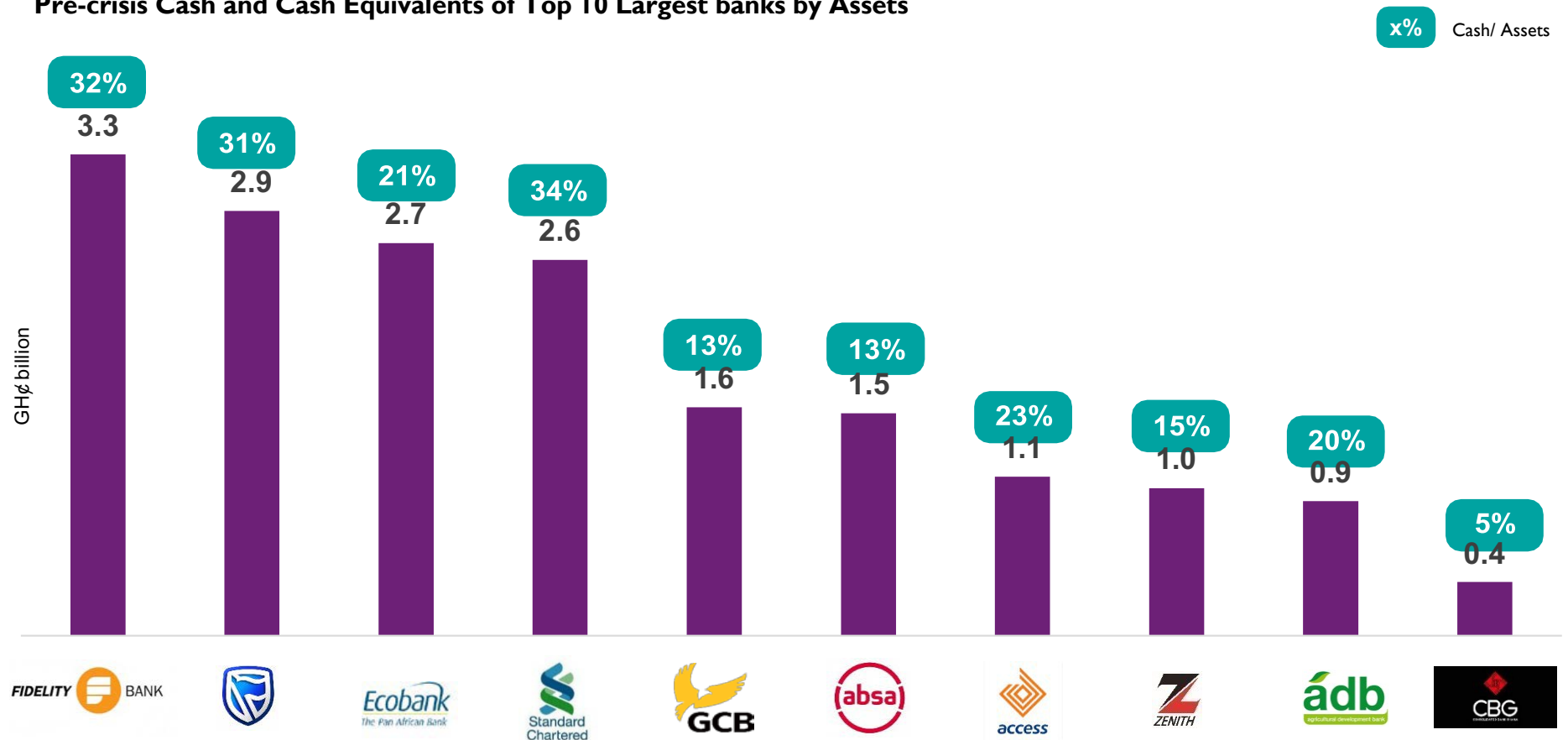
- GCB Bank has reduced interest rates on personal loans from 26 per cent to 24 per cent
- Granted two-month moratorium on both the principal and interest repayment on personal loan

Even though some banks have responded positively to the measures introduced by the Government and the Bank of Ghana, these responses appear to target retail clients and not businesses. Most of the relief packages granted by the banks are personal such as reduction in interest rates on personal loans, salary advance etc.

Source: Banks website

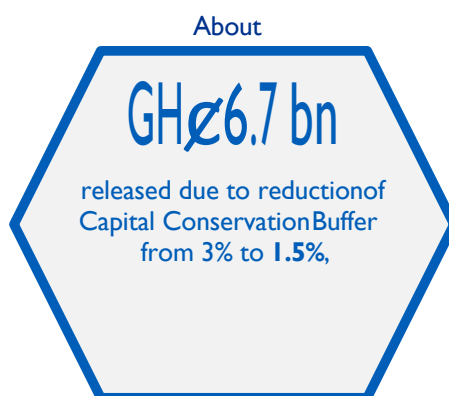
Are banks ready for the days ahead?

Pre-crisis Cash and Cash Equivalents of Top 10 Largest banks by Assets



Source: Banks' 2019 Financial statements
 *NB: 17 out of 24 banks had published their statements as at April 8, 2020. Top 10 out of the 17 banks by assets were used in this analysis.

A minimum of GHC 8.4 billion additional liquidity could be made available by commercial banks due to reduction in reserve requirements by BoG



Base Case: Banks currently have strong capital and liquidity base. CAR is at 17.5% and cash balances is estimated to be 20% of total deposits.

Scenario 1: we estimate banks have the capacity to create risk assets of GHS 6.7 billion by utilizing the BoG directive permitting a 1.5% reduction in CAR. Banks are in position to support the Government backed syndication of GHS 3 billion announced in the fiscal measures.

Scenario 2: We estimate Banks can create risk assets of over GHS 10 billion if they reduce their cash balance to the new minimum of 8% and still have healthy CAR of about 15.5%

Scenario 3: This stresses the banks to reduce CAR and CRR to the new minimum of 11.5% and 8% respectively. Banks can create risk assets of about at GHS 37.9 billion but will have to reduce other investments, most likely, Government securities by GHS 27 billion to be able to create the estimated risk assets. This makes scenario 3 the most unlikely scenario, however, it indicates how resilient the banking sector is in terms of capital and liquidity

Scenario	Possible response	Probability	Additional Risk Assets (GHCm)	CAR	Cash/ deposits	GoG Securities
Base case	Banks do not respond to directive	High	-	17.5%	20%	Nil
Scenario 1	Responds to 1.5% drop in CAR	Medium	6,715.40	16.0%	11.3%	Nil
Scenario 2	Reduces CRR to 8%	Medium - Low	10,020.58	15.5%	8.0%	Nil
Scenario 3	Reduces CAR to 11.5%	Low	37,925.74	11.5%	8.0%	(27,905)

Q4

What are the specific needs of export-oriented agricultural firms, to help them weather the financial effects of the COVID-19 virus and help them recover?



SURVEY RESULTS & FINDINGS

Impact of COVID-19 on Export oriented firms in agriculture



Sector Insights - Ghana Export Promotion Authority, Ministry of Agriculture

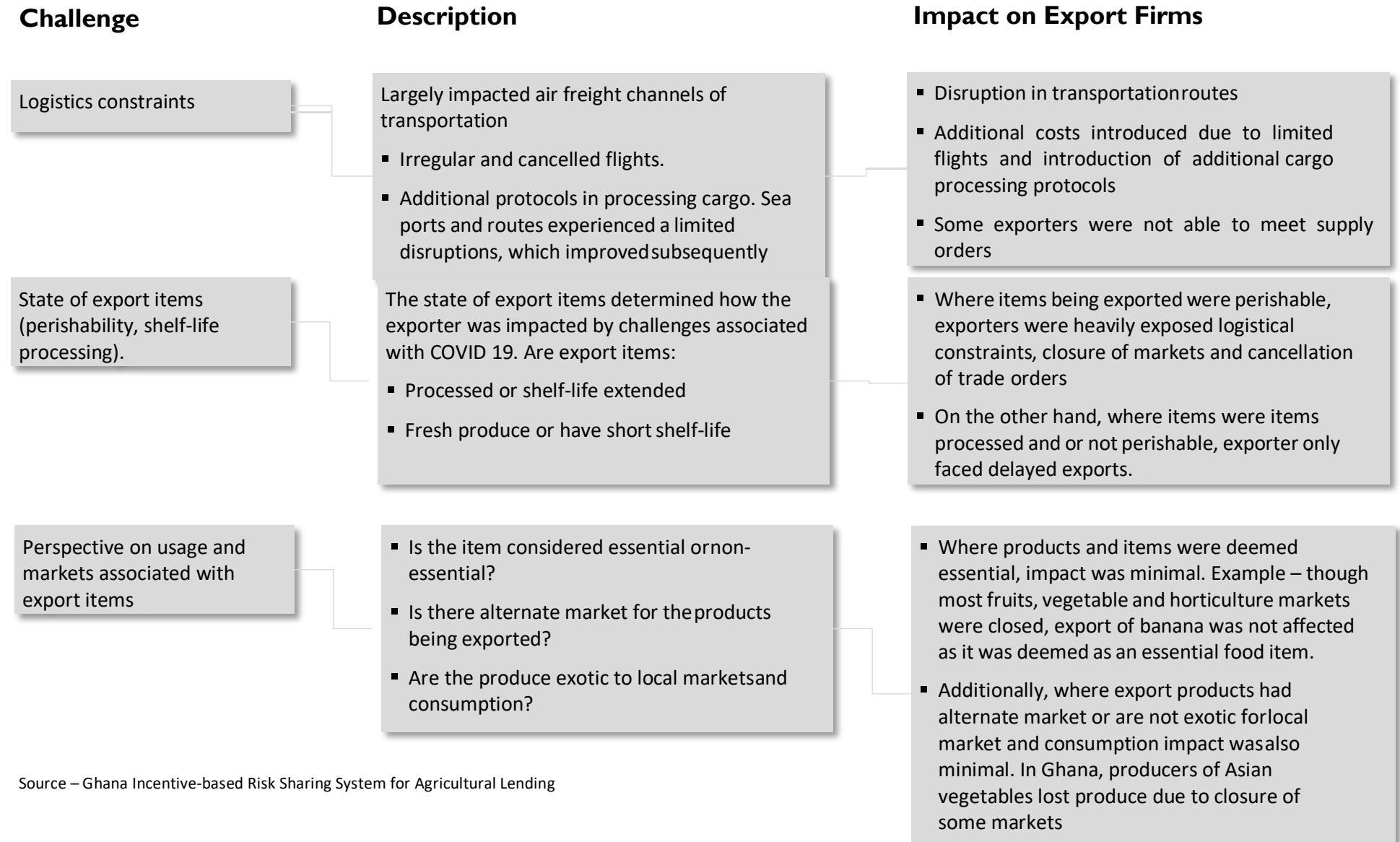
“The sector has faced some challenges since the emergence of the COVID-19 pandemic.” These may include:

- **Market Access Challenges**
 - Logistical challenges resulted in difficulty meeting trade orders. Difficulty in exporting produce due to irregular and cancelled flights (air freight). However sea freight was largely unaffected.
 - Some export orders were reduced or cancelled entirely
 - Some markets and associated ports were closed during the lockdown period.
 - Trade fairs and promotional activities were all cancelled globally
- **Operational Challenges**
 - Business operations shut down during lockdown period, largely for food processing establishments in Accra and Tema
 - Difficulty in accessing production inputs in desired volumes to meet production levels. (Some aggregators could not travel to buy inputs).
 - Low production levels led to some exporters having to lay off workers
 - Some out-growers’ produce went bad because they couldn’t supply their aggregators
 - Asian vegetable producers had excess produce which went bad because there was no market for them in Ghana
 - Financial challenges: importers are not honoring their debts after placing orders
 - Handicraft market was severely impacted

SURVEY RESULTS & FINDINGS

Impact of COVID-19 on Export oriented firms in agriculture

Sector experts position impact of COVID-19 pandemic on Ghana's export oriented market as multi-faceted

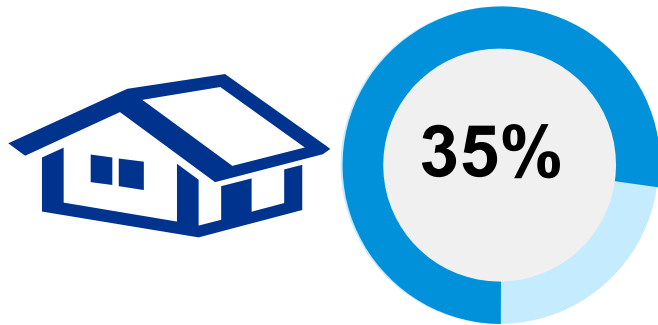


Source – Ghana Incentive-based Risk Sharing System for Agricultural Lending

SURVEY RESULTS & FINDINGS

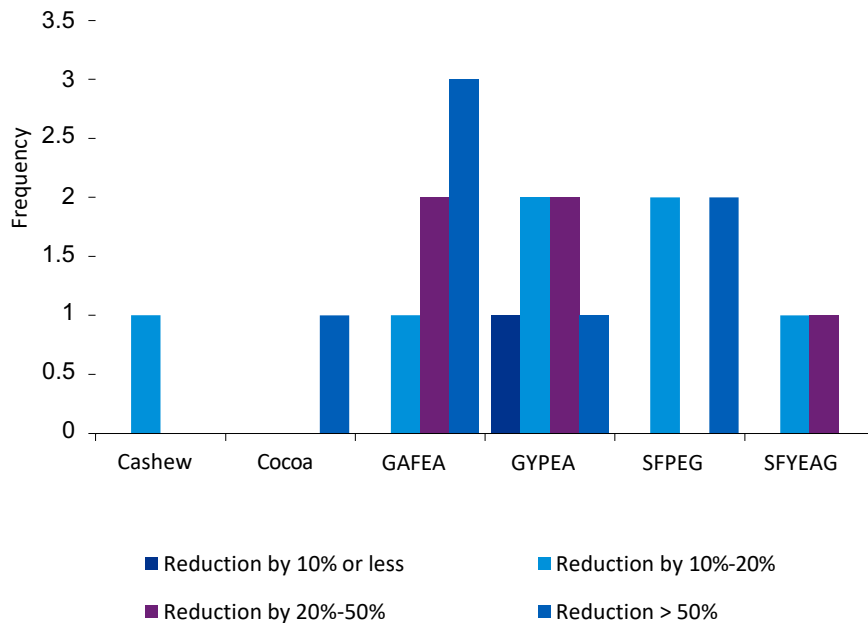
Impact of COVID-19 on operations

Impact on Buffer Stock



Recorded a reduction in buffer stock to be greater than 50%

Impact of COVID-19 on Buffer Stock

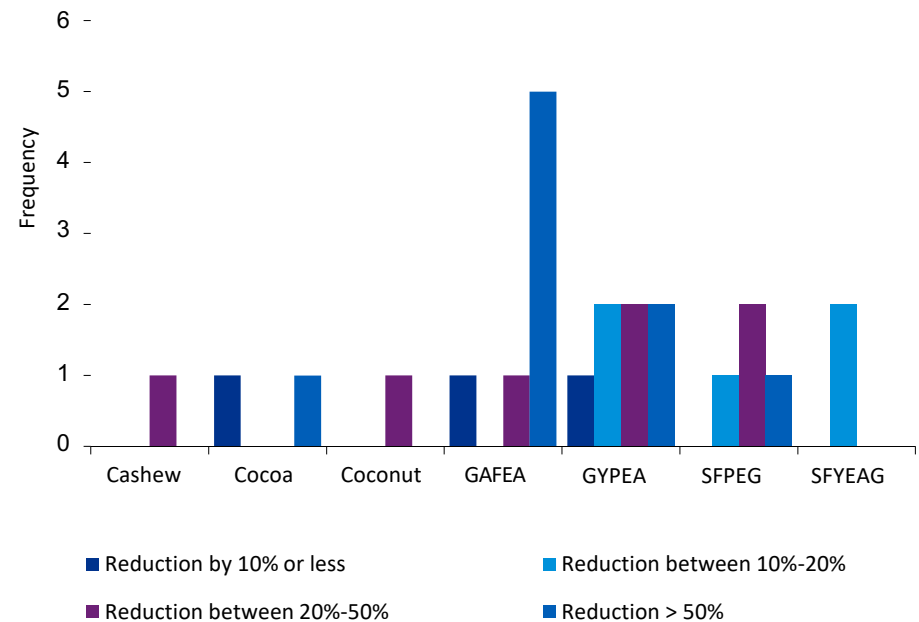


Impact on production output



Of respondents predict output to be reduced by more than 50%

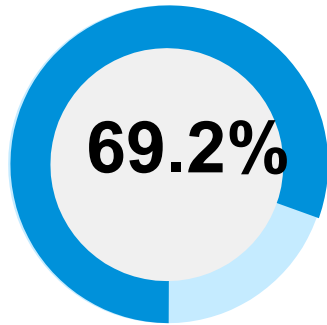
Impact of COVID-19 on output



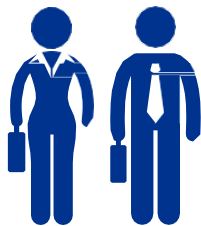
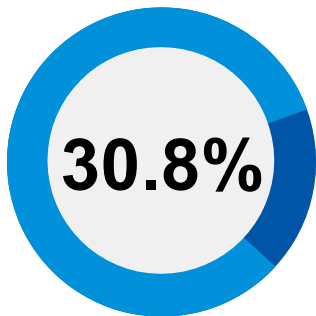
SURVEY RESULTS & FINDINGS

Impact of COVID-19 on operations, cont'd

Impact of COVID-19 on workforce

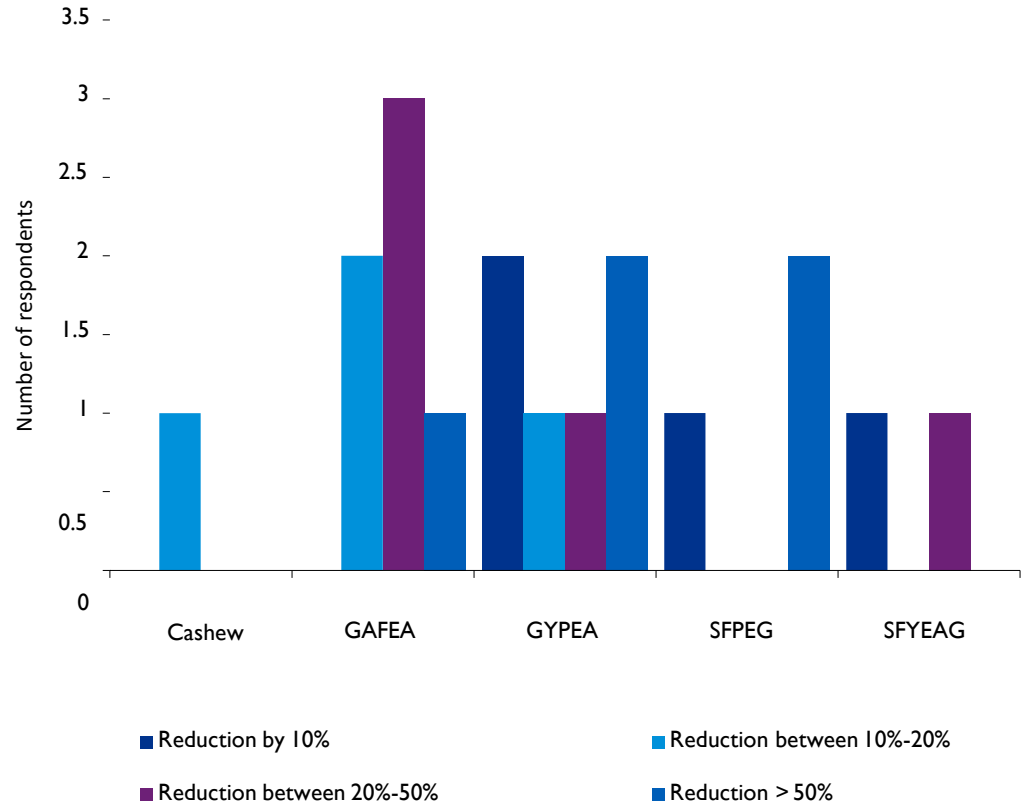


Of respondents indicated that the size of their workforce had been impacted



Of respondents indicated no impact on the size of their workforce

Extent of Impact of COVID-19 on workforce



GAFEA – Ghana Assorted Foodstuff Exported Association

GYPEA – Ghana Yam Producers & Exporters Association

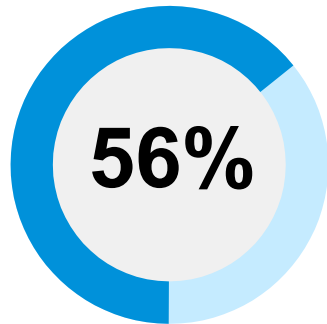
SPEG – Sea-freight Pineapple Exporters of Ghana

SFYEAG – Sea-freight Yam Exporters Association Ghana

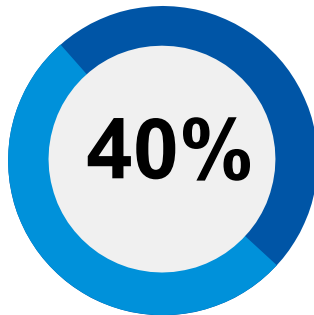
SURVEY RESULTS & FINDINGS

How has COVID-19 impacted operations?

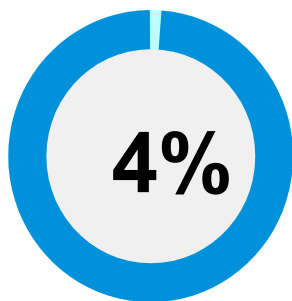
Impact of COVID-19 on operating costs



Of respondents indicated operating cost have increased

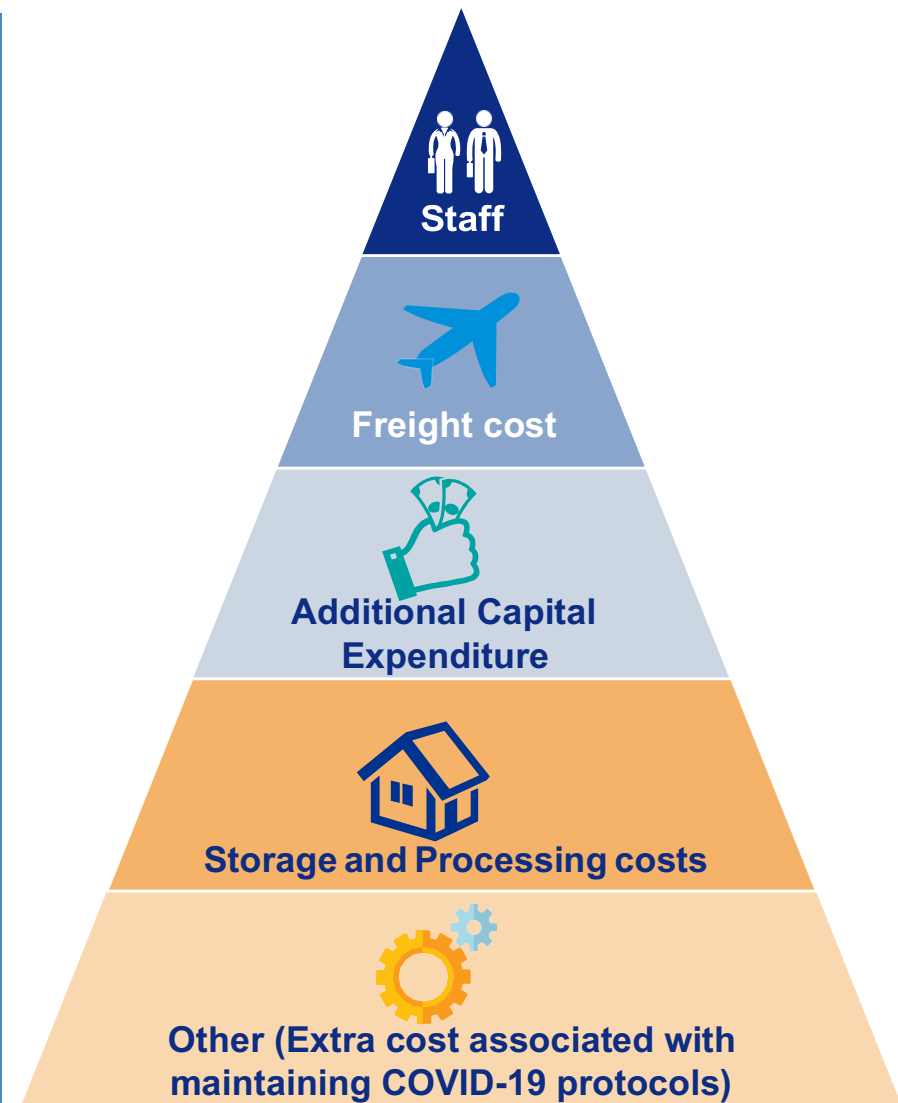


Of respondents indicated operating cost have decreased



Of respondents indicated that there was no change in operating cost

Cost areas impacted by COVID-19



SURVEY RESULTS & FINDINGS

Has closure of our borders impacted operations?

Top 3 areas impacted by border closure from survey



**Transportation
difficulty**



Reduced orders



**Increased
freight costs**

Sector View

- Difficulty in exporting produce as a result of travel restrictions
- Out growers' produce have gone bad because they couldn't supply their aggregators
- Scarcity of flights to destination markets
- Asian vegetable producers had excess produce which went bad because there was no market for them in Ghana
- Financial Challenges: importers are not honoring their debts after placing orders

SURVEY RESULTS & FINDINGS

Other challenges faced by export oriented firms

Increase in freight cost

- Cancelled flights and chartered flights added additional cost
- With the closure of borders and lockdown of some cities globally exporter had to different routes to access markets leading to additional cost

New market entry avenues have been halted

All new market development and promotional activities were halted

Tight screening policies resulting in higher cost

New health protocols implemented globally lead, to additional charges on cargo



Reduced/ cancelled orders on products

With some markets closed, exporters experienced cancelled orders which impacted operations

Limited transport avenues

Exported were faced with limited transportation options for move produce and inputs

Slow delivery resulting in damage of perishable goods

With limited transport options, lockdown and cancellation of flights, some produce were damaged. Which impacted profitability

SURVEY RESULTS & FINDINGS

Do you have access to credit and have you received any assistance from Government?



High Default levels

More than **60%** of the respondents have defaulted or been unable to meet financial commitment to lenders, creditors or suppliers



Access to Credit

10% of the respondents have applied for credit facilities from lending institutions, however, **none** have been successful



Other Funding Sources

However **8%** of respondents have successfully secured funding from sources other than lending institutions



85%

of respondents said they **have not received any support** from Government or other agencies to mitigate the impact of COVID-19

15%

Respondents who received support:

4% - Utility Support

11% - NBSSI Program

SURVEY RESULTS & FINDINGS

Needs of export firms

Based on the responses received, the following needs have been identified as **critical** to the **existence** and **operations** of the export firms.



Financial Assistance

Financial assistance in the form of collateral-free loans, soft loans, government support funding or grants in order to remain operational and revamp their activities during the pandemic



Low interest credit

Low interest on loans compared to the prevailing market price will subsequently reduce the overall cost of borrowing for exporters. The extra income saved can be re-invested in the business



Reduction in freight costs

Another key point raised by exporters had to do with the increase in freight costs due to the limited number of cargo flights during the pandemic. This has adversely impacted the costs of operations, hence seeking on transport organizations to reduce these costs



Information Symmetry

Based on the responses received, there were indications of misleading information on freight costs and market prices to exporters. Exporters were requesting that information should be made for easily accessible to them in order to make informed decision during this period.



Price stability

Apart from readily available information, exporters were concerned on the continuous decline of prices as they were harvesting but unable to export them, thereby forcing them to sell on the local market at relatively lower prices. They suggested market prices should remain unchanged regardless of the Pandemic

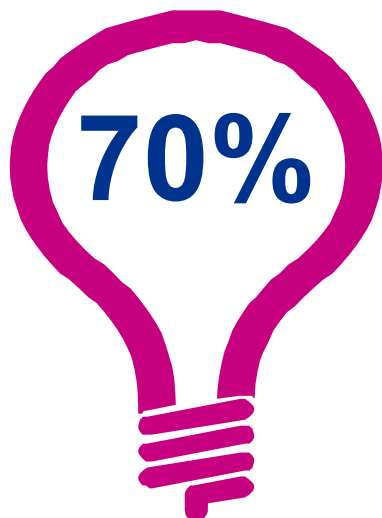


Storage Facilities

Inadequate storage facilities resulted in reduction of prices of most goods in order to prevent them from going bad. A greater proportion of the export products are deemed as perishable in nature, hence there needs to be an enhanced way of storing these products.

SURVEY RESULTS & FINDINGS

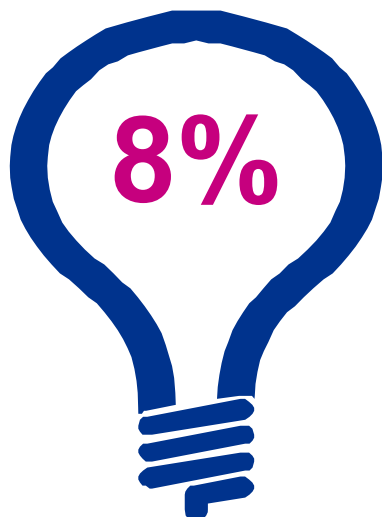
Considerations for USAID



Of respondents are open to considerations from **USAID**. Majority of the members of **GAFEA** in the hopes that **USAID** will come to their aid in these uncertain times as their livelihood depends on exports

From Sector Ministry; considering the nature of the impact experience so far, there is the need to critically consider the following:

- Support measures that improve value addition for the raw agricultural produce exported
- Support efforts that standardized access and also addressed concerns relating to logistics
- Development of local or alternate markets for exotic agricultural produce. This will help cushion actors should designated markets fail



Of respondents are not aware of **USAID** or any of their interventions



Of respondents are not considering any **USAID** interventions. Some exporters lamented about some organizations' assuring them of assistance but not fulfilling their promise.

GAFEA – Ghana Assorted Foodstuff Exported Association

GYPEA – Ghana Yam Producers & Exporters Association

SPEG – Sea-freight Pineapple Exporters of Ghana **SFYEAG** – Sea-freight Yam Exporters Association Ghana

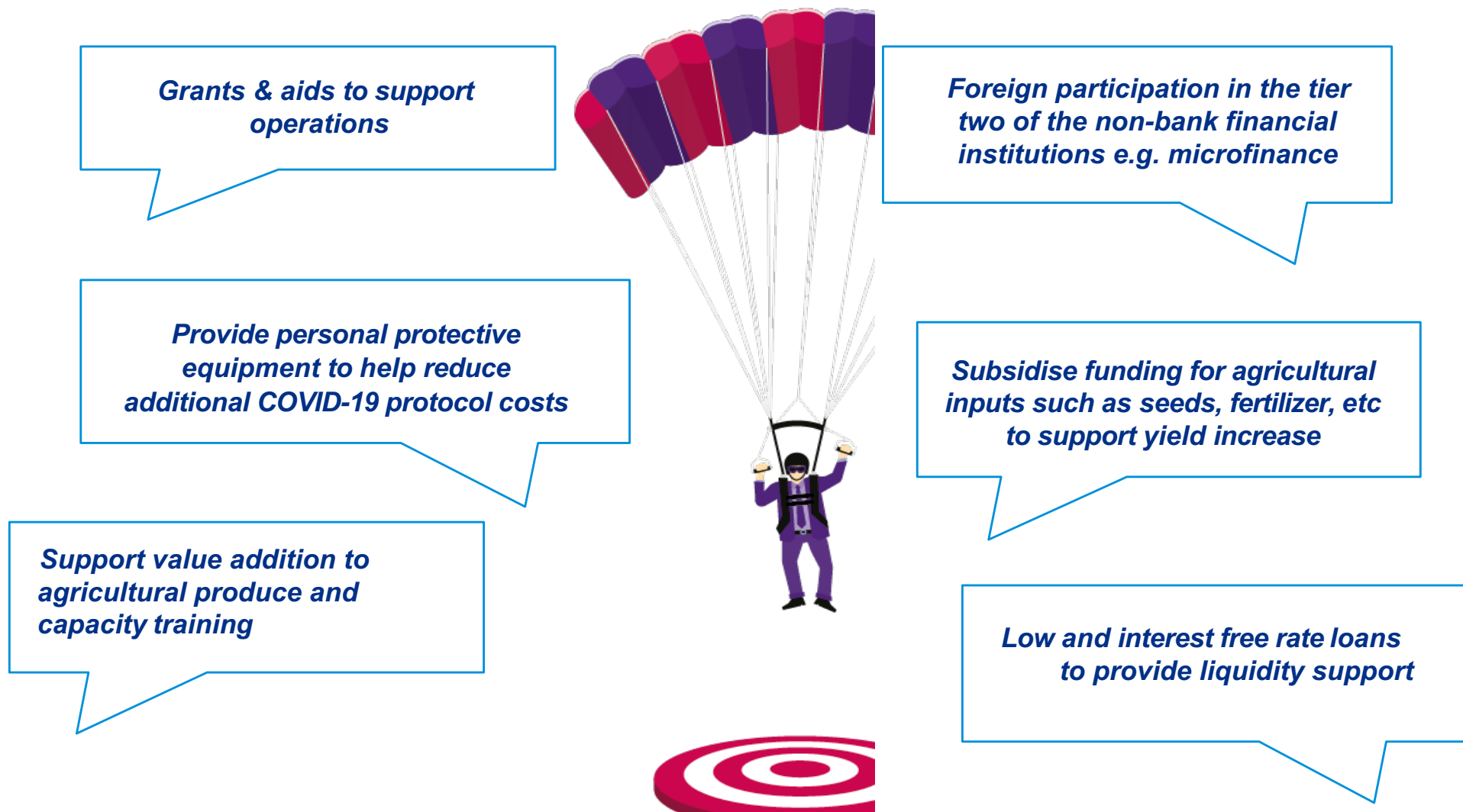
Q5

Are there potential USAID interventions that can help reduce the impact of a COVID-19 downturn on Ghanaian enterprises and financial institutions?



SURVEY RESULTS & FINDINGS

Support from donor community or USAID



SURVEY RESULTS & FINDINGS

Support from donor community or USAID

• *Access to international market with less restrictions*



• *Relief support for at least 2 years*



• *Support for machinery purchase*



Grants and soft loans to support businesses



• *Technical support and funding to alleviate impact of the pandemic*



What strategies can USAID/Ghana incorporate into its economic growth programming to help export-oriented agricultural firms recover from the COVID-19 follow-on economic effects?

1

Provision of funding

Create a funding arrangement specifically for the agro-exporters. This can be done by setting up a credit facility with concessionary terms through the savings and loans, rural and community banks and the microfinance institutions. The Apex Bank could be the conduit through which the funds could be disbursed through the RCBs to the targeted exporters

2

Technical support

Exporters rely significantly on out-growers and individual farmers who need specific technical support like provision of high-yielding seeds/seedlings, improved farming practices and certification. There is the need to ensure sustainability in the production of NTE products like shea and cashew. The support could be provided through associations like the Cashew Alliance and Global Shea Alliance

3

Market access and development

With export markets down, there is the need to develop new markets for the exporters. With the African Continental Free Trade Agreement (AfTCA) coming into force, it provides an opportunity for markets to be developed within Africa. Support could be provided through the Ghana Export Promotion Authority.

4

Product development

There are new opportunities for some agro-products such as shea and cocoa. There are new uses for these products and there is the need explore the opportunities of new uses as substitutes are coming to the market.

5

Modernise production

A significant proportion of producers still use conventional methods in farming. To improve yield of products like vegetables and fruits, there is the need to set up greenhouse farming infrastructure. The products from this modern farming methods are of the quality required by standards in Europe and the USA.

6

Storage facilities along the value chain

The need to develop storage facilities for perishable products to guarantee supply and build buffer stock.

What role could USAID play to ensure that GoG liquidity support programs (either from GoG's Corona Virus Alleviation Program or from the IMF Rapid Credit Facility) could be administered efficiently?

1

Create a funding vehicle for businesses

Create a funding vehicle either in the form of aid or grant to be disbursed alongside the CAP funding. The amount allocated to the CAP is woefully inadequate. Total requests for financial support from businesses amounted to over **GHC7.0 billion** but the Government has only disbursed **GHC600 million** with a further **GHC150.0 million** expected to be disbursed. USAID can directly support CAP or create a vehicle with the RCBs and MFIs who can disburse directly to businesses.

2

Technical assistance in the healthcare sector

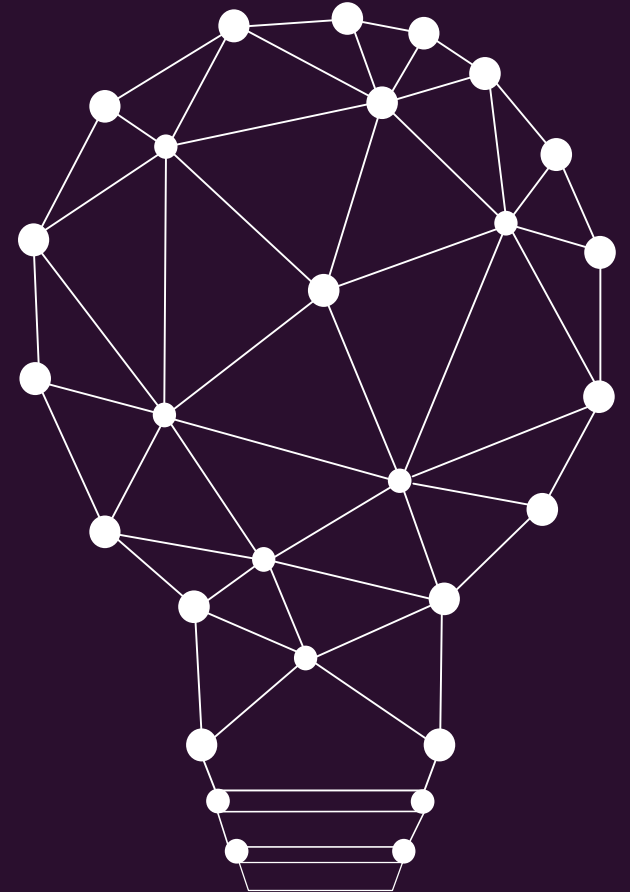
There has been a significant increase in health related cost including the supply of personal protective equipment. Besides the Government of Ghana intends to construct over 94 district and regional hospitals. USAID can play a direct role in supporting the Government with medical support.

3

Support for the Government's medium term plan

From the 2020 Mid-year budget review, the government has outlined a few initiatives which include the Corona Alleviation and Revitalisation of Enterprises Support (CARES) and the establishment of the National Development Bank. USAID could play an active role in the design and implementation of these policy initiatives in the form of financial assistance or technical assistance. The technical assistance could be in the form of assisting in putting together an appropriate regulatory and governance framework for the initiatives.

APPENDIX



INSTITUTIONS ENGAGED

Institutions engaged in the Financial Sector

- Ministry of Finance – Financial Services Division
- Bank of Ghana - Banking Supervision Department
- Bank of Ghana - Other Financial Institutions Department
- ARB Apex Bank -

Institutions engaged in the Export Sector

- Ministry of Trade and Industry
- Ghana Export Promotion Authority
- Africa Cashew Alliance
- Global Shea Alliance
- Olam
- Ghana Incentive-based Risk Sharing System for Agricultural Lending

Commercial Banks

- Cal Bank
- Guarantee Trust Bank
- FBN Bank
- ABSA Bank
- Zenith Bank
- Republic Bank
- GCB Bank
- ADB
- Société Générale Bank

Savings & Loans

- Services Integrity Savings & Loans
- Abii National Savings & Loans
- Utrak Savings and Loans
- Bond Savings and Loans

MFI

- 3AS Microfinance Limited
- Cashback Capital Microfinance Limited
- CAGL Microfinance Services Limited
- Cidan Microfinance Limited
- Eman Capital Microfinance Limited
- Family Trust Capital Microfinance Limited
- Globafin Microfinance Limited
- Golden Foundation Microfinance Limited
- HM Plus Microfinance Limited
- Integrity Infinity Microfinance Limited
- Jally Microfinance Company Limited
- Jireh Microfinance Limited
- JL Brisk Microfinance Limited
- Kesinor Microfinance Limited
- Leverage Microfinance Company Limited
- Loan Line Microfinance Limited
- Mid County Microfinance Limited
- Mwintuur Microfinance Limited
- Neighborhood Microfinance Limited
- Prime Invest Microfinance Limited
- Sheedy Microfinance Limited
- Talent Microfinance Services Limited

Rural Banks

- Ada Rural Bank Limited
- Agave Rural Bank Limited
- Ahafo Ano Rural Bank Limited
- Asokore Rural Bank Limited.
- Adonten Community Bank Limited
- Okomfo Anokye Rural Bank Limited
- Bomoasadu Rural Bank Limited
- Builsa Community Bank Limited
- Enyan Denkyira Rural Bank Limited
- Amansie Rural Bank Limited
- Amuga Rural Bank Limited
- Asawinso Rural Bank Limited
- Assinman Rural Bank Limited
- Kwaebibirem Bank Limited
- Upper Amanfi Rural Bank
- Amanano Rural Bank

EXPORTERS ENGAGED

GYPEA

- Cecilia Appiah
- Dorcas Jagri
- Evans Quarshie
- Isaac Otempong
- Martin Appiah
- Sedom Guava
- George Buerthey

SPEG

- Bomarts Farms
- Mashaco Farms
- Pioneer Quality Farms
- Equatorial Capital Ventures Ltd
- Ohu Farms

SFYEAG

- Henacent Limited
- EX1414 Limited
- K Laast Company Limited

Cocoa derivatives

- Barry Callebaut Ghana Limited
- Cocoa Processing Company

GAFEA

- Esdansfi Enterprise
- Batu Farms
- District George Limited
- Addolax Distribution Agency
- Greenwood 121 Ventures
- Adjabu Brothers Co. Ltd
- Kaabdab Company Ltd

Others

- Cashew Alliance
- Prudent Export

