Disruptions and the protracted effects of the COVID-19 lockdown in the non-bank financial institution sector in Ghana

James Atta Peprah

Abstract: *This paper assesses disruptions in the non-bank financial institution (NBFI) sector and the protracted effects of COVID-19 and the lockdown on the NBFI sector. The paper focuses on microfinance institutions in Ghana using rapid response survey data obtained from the Ghana Microfinance Institutions Network between January 2020 and April 2020. Poor corporate governance, improper documentation of transactions, and impaired loan portfolio among others were antecedents to the disruptions. Regarding the lockdown effects, we found that savings value contracted and the possibility of a further deteriorating portfolio is anticipated thus reducing interest income. The use of digital channels of delivering savings and loan products increased while the physical delivery channel decreased. The regulator needs to have a second look at microfinance regulation in Ghana. Policy should focus on expanding and upscaling the use of digital and remote banking means in reaching out to clients.*

Keywords: non-bank financial institutions, microfinance institutions, lockdown, Bank of Ghana, COVID-19

Introduction

THE LIKELIHOOD THAT A COUNTRY will suffer financial crisis depends largely on several factors such as global influences, contagion effects, and internal factors. For instance, the 2008/2009 global financial crisis which contributed to capital outflows from some sub-Saharan African frontier markets and exchange rate depreciations are clear testaments of how imbalances and instabilities in an economy can create instabilities in financial markets. There is no doubt that such events disrupt the efficiency gains that have been made in the past.

Ghana's financial sector saw an expansion and growth in the non-bank financial institutions (NBFIs) sub-sector after the 1983 financial sector reforms. The Non-Bank Financial Institutions Act, 2008 (Act 774) defines NBFIs as those institutions that engage in leasing operations, money lending operations, money transfer services, mortgage finance operations, deposit and non-deposit-taking microfinance services, credit union operations, acceptance houses, building societies, and discount houses. An unregulated microfinance sector was subject to regulation and after less than a decade the sector was plagued with a myriad of problems. In preparation for recovery, the global health authorities declared COVID-19 a global pandemic and

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more injuries were added to the wounds of affected institutions. The originality of this paper stems from the fact that it is the first of its kind in Ghanaian finance and economic literature. The key motivation for penning this paper is to provide original literature on Ghana in terms of COVID-19 lockdown effects and the microfinance crises. As argued by Malik et al. (2020) COVID-19 lockdown represents a crisis for microfinance in low- and middle-income countries. Thus, the recent disruptions and lockdown effects pose twin crises in the sector that serves the majority of people working in the informal sector.

Theoretically, banking disruptions can emanate either from unwarranted depositor withdrawals during events characterized by contagion or panic, or as a result of fundamental insolvency (Wai, 2010): this is an example of what happened in Ghana.

The euphoria of microfinance in Ghana turned rather sour when the World Health Organization declared the novel coronavirus a global pandemic on 11 March 2020, and on Saturday 28 March a lockdown was announced in the Greater Accra and Kumasi Metropolitan Areas. In addition to several social distancing protocols that were announced, individuals were restricted to stay home as much as possible for the next two weeks, with inter-city travel for private and commercial purposes, except for essential goods and services, being suspended. In the lockdown period people were only permitted to leave their homes to purchase essential goods and services such as food, medicine, and water, or to visit the bank and public toilets. These restrictions on people's movement slowed down business activities, which undoubtedly affected the activities of NBFIs and the entire financial system.

Several questions could be posed including: how could such a once universally celebrated idea come to this sad end? Did something go wrong with the regulation or the laws themselves? Or did the NBFIs conduct business in the wrong manner? What have been the effects of COVID-19 lockdown on NBFIs' businesses, and what lessons could be learned? The paper attempts to throw light on the possible causes of disruptions within the NBFIs. It also investigates why the regulatory activities undertaken by the Bank of Ghana might contribute to the fall of microfinance activities in Ghana. The contribution of this paper is twofold: policy and practice. In terms of the policy, the paper offers some new insights into how the regulator can effectively regulate and supervise NBFIs, especially microfinance in Ghana. From the practical perspective, the paper fills the practical gap by drawing lessons from the recent disruptions and what can be done to enable institutions to sustain themselves during future crises such as COVID-19. The next section describes the data used for the study; this is followed by a presentation of the evolution, disruptions, and clean-up in the NBFI sector; the paper then goes on to look at the effects of the lockdown and discusses the lessons and implications, finishing with a concluding section.

Data and methodology

In this study, we employ a mixed methodology comprising a desk review and the use of secondary data. A review of reports from the Central Bank of Ghana and opinion papers that have been published during the crises is made. The secondary data was

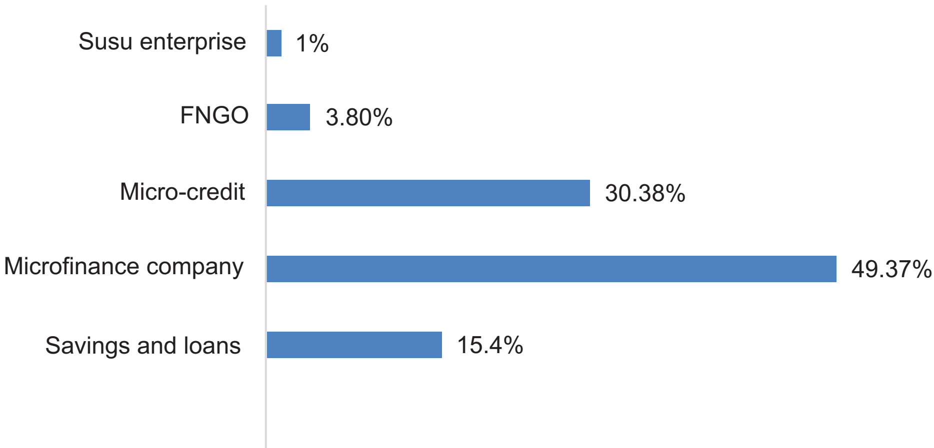

Figure 1 NBFIs that participated in the survey
Source: GHAMFIN, 2020

obtained from Ghana Microfinance Institutions Network (GHAMFIN) and was collected between March and April 2020. The data were collected by CDC Consult on behalf of GHAMFIN with support and cooperation from all the microfinance associations. In the survey 80 institutions (microfinance companies, micro-credit institutions, financial non-governmental organizations, and Susu enterprises; see Figure 1) participated online. The key issues that were captured include the effects of COVID-19 lockdown on client coverage before and during COVID-19; effect on delivery channels; effect on loans, savings, and portfolio; effect on interest margin; disaster recovery and business continuity plan, among others. It should be acknowledged that the data are self-reported and have not been validated beyond basic consistency checks; however, GHAMFIN did validation by recalling all respondents to confirm their responses.

Evolution, disruptions, and the clean-up in the NBFI sector before COVID-19

The period of disruptions

In this section, the paper focuses on the disruptions in the NBFI sector before the pandemic (COVID-19). Following the crises, the clean-up exercise that started in August 2017 culminated in a decreased number of savings and loans companies (S&Ls) from 41 to 25, while the micro-credit and microfinance institutions reduced from 554 to 168 and the finance houses, leasing and remittance companies went down to 17 from 26.

It is worth noting that the activities of some NBFIs posed a risk to the entire financial sector, with increasing incidents of reported fraud, insolvency, loss of savings and deposits, and in 2011 the Bank of Ghana initiated measures to bring all types of NBFIs, especially MFIs, under a consistent regulatory framework by issuing guidelines for MFIs which classified them into tiers (this period marked the genesis of microfinance regulation in Ghana). In line with Frey and Eichenberger (1989), 'Anomalies and institutions' indicate that government has emerged as one of the most important institutions for dealing with individual anomalies and at the national level laws are made to restrict those members of society who are thought to be prone to act irrationally. Thus, the intervention of the government was appropriate.

In July 2011, the Bank of Ghana issued Notice No. BG/GOV/SEC/2011/04 which specified the various categories and operational activities of each category of microfinance tiers. In 2016, the Bank of Ghana finalized a full-fledged regulation document for all categories of MFIs in Ghana. The new regulatory guidelines (Business Rules and Sanctions for Microfinance Institutions-Tiers 2, 3 and 4) consolidated all previous guidelines that were issued since July 2011. In addition to the previous guidelines and notices the current microfinance laws included issues from existing laws such as Non-Bank Financial Institutions Law (NBFI Law) 2008 Act 774 and the Banking Act 2004 (Act 673 as amended). As of 2018, these laws have been replaced by the Banks and Specialised Deposit-Taking Institutions (SDI) Act, 2016 (Act 930) to regulate all NBFIs including microfinance institutions.

However, the collapse of the NBFI sector was preceded by some form of liquidity challenges, insolvency, total collapse, and take-over of some private banks. The banking sector seemed to be having problems before the microfinance regulation started. For example, before 2012, the quality of bank assets had been deteriorating since 2002 but the trend was not consistent. From 2009 asset deterioration in the banking sector re-surfaced with non-performing loans of around 16.7 per cent of gross loans which was higher than that of Kenya (7.9 per cent) and South Africa (5.9 per cent). This continued in 2013 when, according to Ackah and Asiamah (2014), Ghana saw a pickup in threats to its financial system stemming from both external and domestic sources. Threats to stability from external sources related mainly to increased global financial market volatility on the back of the United States perceived indication to end its accommodative monetary policy by tapering bond purchases. Internal sources emanated from mainly poor macroeconomic performance, poor loan performance, and governance structures with the institutions.

In behavioural economics, trust plays an important role in explaining the relationship between an institution and its clients. Trust affects the willingness of individuals to use a particular financial institution based on their subjective assessment of its reliability. From this perspective, it seems trust is a key ingredient for the survival of financial institutions. The loss of trust in the banking sector could have had serious implications for the microfinance activities in Ghana. High-risk lending was an important factor that led to the crisis. Most MFIs had not been able to put in place strong risk management practices that could enhance loan quality. Bank of Ghana confirmed that non-performing loans and poor credit/loan underwriting were key fundamentals in bringing down MFIs and warranted the withdrawal of their licences.

Revocation of licences of MFIs

Microfinance companies (MFCs) fall under the second tier of the microfinance categorization in Ghana. These are companies limited by shares but not listed on the Ghana Stock Exchange. As of 2019, the Bank of Ghana has prescribed a minimum capital of 2 m Ghana cedis (the equivalent of US$400,000) with which a number of MFCs had not been able to comply. The revocation of licences started with these companies with an announcement that 343 MFCs were insolvent, effective on Friday 31 May 2019. Unfortunately, a number of these MFIs had not been able to meet their minimum capital so many days before the announcement from the regulator. This supposes that perhaps capital adequacy-based bank regulation is ineffective in Ghana but rather some guidance may yield positive resultant effects. Moreover, one could also argue that the central bank had not been proactive enough and, more importantly, releasing the news into the public domain all of a sudden was not prudent.

In consequence, the government decided to bail out affected institutions by paying about 900 m Ghana cedis (the equivalent of $196 m) to customers from loans contracted from the World Bank. Many have argued that the bailout process was not prudent because the funds could have been used to resuscitate the affected institutions to keep them in business to avoid loss of public confidence and jobs. In some countries where banking crises have occurred, it is the institutions that were revamped rather than paying monies direct to customers. For instance, in the Asian financial crises, financial institutions were restructured by the governments instead of paying monies direct to affected institutions and customers (see Lindgren et al., 1999: 103) The bailout process in Ghana's case agitated political debates in the media even though the government went ahead to instruct the receiver to pay customers.

After revoking the licences of 343 MFIs the Bank of Ghana descended on the savings and loans companies and finance houses. On 16 August 2019, the Bank of Ghana issued a notice revoking the licences of 23 insolvent savings and loans companies and finance houses in compliance with Section 123 (1) of the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930). The main reason offered by the regulator was that the level of capital held by some of these institutions violated the minimum regulatory capital required by Act 930 and made it precarious for those institutions to continue to undertake the business of specialized deposit-taking institutions, given the risks they posed to their depositors and other counterparties to whom they were exposed directly or indirectly. Among other reasons were:

- Excessive risk-taking without the required risk management function to manage associated exposures.
- The use of depositors' funds to finance personal or related-party transactions or businesses on terms that were not commercial, leading to little or no income accruing to the relevant institutions and thereby compounding their liquidity challenges.
- Corporate governance weaknesses (weak board oversight, poor accountability, and override of internal controls).

- Creative accounting practices and under-provisioning for impaired assets, thereby misrepresenting their true financial condition to the regulator and other stakeholders.
- Persistent regulatory breaches, involving non-compliance with Bank of Ghana's prudential rules, and failure to implement on-site examination recommendations.

Table 1 shows the 21 reasons that were assigned for the revocation of licences of some NBFIs such as savings and loans companies (18) and the finances houses (5) in mid-2019. Among the reasons, negative net worth (22 per cent) and negative capital adequacy ratio (23 per cent) were the most prominent. These two variables affected the liquidity positions of about 65.2 per cent of these institutions having their licences withdrawn.

Perhaps if the government allows foreign participation in microfinance, the liquidity base of MFIs will be stronger and enhance efficiency. This also suggests

Table 1 Summary of reasons for licence revocation of NBFIs

Reasons	*No. of institutions*	*%*
Negative net worth	22	95.3
Negative capital adequacy ratio	23	100.0
Serious liquidity challenges	15	65.2
No supporting and concealing documentations	2	8.7
Non-performing loans	10	43.8
Misrepresentation of the institution's true financial condition	4	17.4
Corporate governance weaknesses	5	21.7
Engaging in non-permissible activities	2	8.7
Breach of minimum cash reserve ratio	12	52.2
High management fee pay	1	4.3
Weakness in board and senior management oversight	3	13.3
Poor credit, loan underwriting, and risk management function	5	21.7
Window dressing of accounts	5	21.7
Violation of regulatory limits to related companies	15	65.2
Failure to implement Bank of Ghana on-site recommendations	9	39.1
Ceased operation and closed offices	5	21.7
Change of name and relocation without approval	1	4.3
Failure to sell repossessed collaterals	1	4.3
Failure to submit and publish audited financial statements	6	26.1
Loans without proper documentations	1	4.3
High rent expenses	1	4.3
Total	23	–

Source: Bank of Ghana, 2019

that corporate governance is key since it might translate into the quality of capital among NBFIs. Capital impairment among most NBFIs usually emanates from the poor repayment habits of clients. This is evidenced in Table 1 where serious liquidity challenges (65.2 per cent) and non-performing loans (43.8 per cent) were among the reasons for licence revocation. This may be partly as a result of the short duration between loan disbursement and when repayments start. It also seems that many MFIs are not following the standard credit assessment procedures specified by the laws.

The revocation announcement brought fear and panic among the public and that caused panic withdrawal even though a receiver was appointed to make sure depositors had their monies paid. In traditional banking studies, some authors have categorized banks as to whether they have significant state involvement, foreign ownership, or domestic private ownership. For example, Moyo et al. (2014) argue that local banks with significant foreign holdings have a lower probability of distress, and a similar scenario holds for state-owned banks, albeit to a lesser extent since the government can allow the heavily undercapitalized banks to operate. Thus, local banks with foreign ownership have a higher survival rate as do government-owned banks whereas domestically owned private banks have a lower survival rate. In a similar vein, all MFIs in Ghana are domestically owned and have no government involvement or foreign ownership participation so have a lower survival rate. The only government-owned NBFI, Microfinance and Small Loans Centre, was not part of the exercise even though it is well known that they have a myriad of challenges. Even before the clean-up was completed the whole world was hit with COVID-19 and its associated lockdown measures which compounded the already disrupted NBFI sector of Ghana.

COVID-19 lockdown and the NBFI sector

The second part of this paper investigates the effect of COVID-19 on selected NBFIs. Findings from the rapid response survey undertaken by GHAMFIN are presented and analysed. In all, 80 NBFIs voluntarily took part in the survey and the distribution is as follows: 12 S&Ls (15.4 per cent); 39 microfinance companies (49.37 per cent); 24 micro-credit providers (30.38 per cent); 3 financial non-governmental organizations (FNGOs) (3.80 per cent); and 1 Susu operator (1 per cent) (see Figure 1).

Effects on clients' savings and loans

Table 2 shows the protracted effects of lockdown on the outreach of clients. We look at three key delivery models (face to face, use of mobile money, and other digital platforms) for reaching out to clients before and during COVID. Other digital platforms include the use of point of sale (POS), internet, and tablets. It is important to note that traditionally NBFIs have been dealing with clients physically and for that matter, a sudden change in delivery method due to lockdown in some locations might work slowly.

We realize from Table 2 that for a face-to-face meeting with clients, there is a negative change of 4 per cent for before lockdown and during the lockdown. The use of mobile money, however, increased from approximately 13 per cent to

Table 2 Effect of lockdown on outreach

Clients	*Face-to-face*		*Use of mobile money*		*Other digital platforms*	
	Before lockdown	*During lockdown*	*Before lockdown*	*During lockdown*	*Before lockdown*	*During lockdown*
TSC	1,742,888	1,742,888	1,742,888	1,742,888	1,742,888	1,742,888
%TSCR	**77.5**	**72.9**	**12.9**	**32.2**	**3.3**	**19.9**
TLC	344,454	344,454	344,454	344,454	344,454	344,454
%TLCR	**77.5**	**72.9**	**12.9**	**32.2**	**3.3**	**19.9**
TC	**2,087,342**	**2,087,342**	**2,087,342**	**2,087,342**	**2,087,342**	**2,087,342**

Note: TSC, total savings clients; TSCR, total savings clients reached; TLC, total loan clients; TLCR, total loan clients reached; TC, total savings and loans clients
Source: GHAMFIN, 2020

32 per cent from before lockdown to during the lockdown. In the case of the use of other digital platforms to interact with clients, the lockdown period saw an increase of 16.6 percentage points (from 3.3 per cent to 19.9 per cent). This implies that the use of other digital platforms to serve clients could be used to leverage the effects of the pandemic and other future crises which might impede personal contact. Lipiäinen et al. (2014) asserted that digital channelling tools can facilitate interactions although some challenges may arise with planning their utilization. On the global fronts it has been indicated that these digital platforms have ended up being a source of business resilience altering the nature of competition in markets (Hall and Krueger, 2018). Related to the role of digital tools, the importance of face-to-face channels in everyday interactions and the role of the digital platform as more formal communication channels are not to be underestimated. Therefore, the use of digital channels to reach out to clients might work effectively during the total and partial lockdown in some locations. This result thus confirms an earlier suggestion proposed by Shrestha (2020) that MFIs should develop digital platforms and new models for conducting microfinance business by lowering operational cost. It is therefore not surprising that Ghana became the first country recognized by CGAP for launching a digital financial services (DFS) policy. While the policy has been years in the making, the government hopes the policy will support various measures it is taking to leverage DFS in its COVID-19 response. Thus, COVID-19 offers new opportunities to take advantage of the use of mobile money and digital finance delivery.

Effect on loan performance

Even though the pandemic started somewhere in the middle of December 2019 in Wuhan, Hubei province of China, the effects were not felt until early 2020. NBFIs in Ghana nevertheless had their fair share of loan deterioration that arose from late performance starting from December 2019. Table 3 reports the value of loans that started going bad on a monthly basis from December 2019 to April 2020. It also shows the PAR (portfolio at risk) for each institution category during

Table 3 Effect of the lockdown on loan performance: value of late performing loans (GHS) and their equivalent in US$

Institutions	*31 Dec 2019*	*31 Jan 2020*	*29 Feb 2020*	*31 March 2020*	*30 April 2020*
S&Ls	149,400,241	149,187,437	155,229,886	165,246,197	182,756,035
Equivalent in US$	25,210,569	15,776,012	28,960,799	28,854,892	31,783,658
PAR (%)	18.63	18.61	19.36	20.61	22.80
MFCs	26,869,123	25,298,589	24,779,078	23,791,692	26,586,666
Equivalent in US$	4,713,881	2,675,231	4,622,962	4,154,447	4,623,768
PAR (%)	21.10	19.87	19.46	18.69	20.88
MCEs	2,322,345	2,406,081	6,304,173	3,645,408	4,138,233
Equivalent in US$	407,429	254,434	1,176,151	636,552	719,693
PAR (%)	12.34	12.79	33.50	19.37	21.99
FNGOs	3,186,038	3,186,038	3,215,779	3,301,958	3,591,236
Equivalent in US$	558,954	336,912	599,959	576,579	624,563
PAR (%)	19.33	19.33	19.51	20.03	21.97
Susu	N/A	N/A	N/A	N/A	N/A
Total (GHS)	**181,777,747**	**180,078,144**	**189,528,916**	**195,985,254**	**217,072,169**
Equivalent in US$	**31,890,833**	**33,001,896**	**35,359,872**	**34,222,472**	**37,751,682**
PAR (%)	**18.85%**	**18.67%**	**19.65%**	**20.32%**	**22.51%**

Notes: GHS, Ghanaian cedi; N/A, data not available; PAR, portfolio at risk; S&Ls, savings and loans companies; MFC, microfinance companies; MCE, micro-credit enterprises; FNGOs, financial non-governmental organizations; Susu Enterprises are enterprises that take daily deposit collections and pay them back to their clients at the end of the month for a fee. The fee is one month's collection and is deducted from the clients' contribution.
Source: GHAMFIN, 2020

the period. The most affected were the S&Ls followed by micro-credit providers and FNGOs.

Overall, we observe that loan repayments have been delayed thus causing the outstanding loan balance to increase from GHS 181,777,747 ($31,890,833) in December 2019 to GHS 217,072,169 ($37,751,682) in April 2020 with the most affected institutions being the S&Ls. Generally, Boateng (2018) posited that S&Ls already suffer from credit risk which is prevalent in their day-to-day operations, coupled with rampant multiple borrowing and bad debts. Therefore, in an addition to the effect of this pandemic, it is valid to argue that S&Ls are the most affected institution. Lockdown in some locations and an increased expenditure on COVID-19 protective items are among the popular factors that might cause the delay in repayment. Moreover, if we borrow the Ricardian equivalence postulate, households may reduce their current spending in the expectation of future increases in risks so they might want to commit more cash resources to face the uncertainty surrounding the pandemic and in the event of a lockdown. The impaired loans have negative implications for the quality of the NBFIs' portfolio. This may emanate from the effect of credit losses due to non-performing loans (NPLs) and a shrinking portfolio will put serious pressure on equity capital, quite possibly threatening NBFIs with outright insolvency, and, ultimately, losses to investors. Similar incidents have been recorded around the world; for instance in Nepal, Shrestha (2020) noted that there is slight upward trend regarding the NPLs. NPLs of retail MFIs in Nepal increased up to 2.34 per cent as of mid-July 2020. These findings give the alert that delayed loan repayment has implications for the asset quality of NBFIs in the near future as COVID-19 and its effects are uncertain. It is observed that as a result of the lockdown, loans were impaired during the period with the highest occurring in April 2020 for S&Ls (22.80 per cent) and micro-credit enterprises (MCEs) (21.99 per cent). The average loan impairment (PAR) was even higher during this period.

Effect on interest margin

Interest margin represents the gains made from on-lending. Following from late loan repayment, institutions posted declining interest margin from 31 January to 15 April 2020. The worse affected NBFIs were microfinance companies (from 97 per cent to 55 per cent) followed by S&Ls (from 51 per cent to 28 per cent) (see Table 4). Contrary to this phenomenon Addai et al. (2016) observed that over the past years the Ghanaian microfinance industry has been characterized by high interest margins which are mainly due to a combination of macroeconomic and firm-specific factors which need to be given much attention in dealing with high net interest margin among MFIs in Ghana. The evidence from this present study therefore vividly proves that indeed the COVID-19 pandemic has hugely impacted the NBFIs sector.

Micro-credit providers posted a reduction of 14 percentage points (from 77 per cent to 63 per cent). FNGOs are usually not profit-motivated, which is the reason why they do not seem to be affected by the pandemic. They provide grants and seed money to their beneficiaries at subsidized rates so the default is very minimal. In the case of the FNGOs all loans given to clients are supposed to be recouped so that the next round of clients could also be served. Thus, even though interest margin might not matter to them so much, loan impairment is of grave concern.

Effects on outreach

In the heat of the pandemic, some parts of the country went under lockdown, especially those areas where NBFIs dominate. Undoubtedly, this posed a threat to

Table 4 Interest margin (Jan 2020 to April 2020)

Institution	*31 Jan 2020 (%)*	*29 Feb 2020 (%)*	*31 Mar 2020 (%)*	*30 Apr 2020 (%)*
Savings and loans (S&Ls)	51	55	52	28
Microfinance companies	97	69	77	55
Micro-credit providers	77	74	71	63
FNGOs	66	63	65	94
Susu Enterprises	N/A	N/A	N/A	N/A

Source: GHAMFIN, 2020

Table 5 Percentage change in outreach (qualified but denied clients)

Institution	*31 Jan 2020 (%)*	*29 Feb 2020 (%)*	*31 March 2020 (%)*	*30 Apr 2020 (%)*
Savings and loans (S&Ls)	–19	12	0	–74
Microfinance companies	–80	28	–37	–80
Micro-credit institutions	1	–2	23	–99
FNGOs	0	1	–1	0

Source: GHAMFIN, 2020

outreach even though institutions devised innovative ways to serve clients such as the use of digital and remote banking strategies. Table 5 shows the reduction in qualifying applications that were served between December 2019 and April 2020. MCEs nearly lost all their qualified clients due to a drop of 99 per cent, followed by MFCs (–80 per cent).

The severity of client refusal (clients that were refused loans during the period even though they qualified) was observed in the month of April 2020 when the lockdown was intense. It was only FNGOs that did not experience any further drop in their prospective clientele. The experience from Nepal according to Shrestha (2020) shows that COVID-19 lockdown caused a drop in numbers of borrowers, which declined by about 66,000 over the period of 4 months (mid-March–mid-July 2020). This could be attributed to the restricted movement of people from urban areas to rural areas because of fear of the pandemic.

The lockdown did not only affect outreach of clients but also staffing. In general workers were laid off in most businesses including MFIs. For example in Ghana the COVID-19 Business Tracker Survey conducted by the Ghana Statistical Service (GSS), in collaboration with the United Nations Development Programme (UNDP) and the World Bank, showed that about 770,000 workers (25.7 per cent of the total workforce) had their wages reduced and about 42,000 employees were laid off during the country's COVID-19 partial lockdown.

Regulatory response and lessons from COVID-19 for NBFIs

Government of Ghana and the regulator (Bank of Ghana) responded to the COVID-19 pandemic in other ways aside from the lockdown. In this section the response from government is presented and lessons are drawn for NBFIs.

Government and regulator's response

The Government of Ghana announced protocols to guide social distancing, public gathering, and lockdown. Most of the financial service providers responded by temporary closure of branches; reduced banking hours from 8:30 a.m. to 4:00 p.m. to 9:00 a.m. to 3:00 p.m.; staff rotation; rescheduling of loans (from three to six months); reduction and suspension of interest on loans; enhanced security on mobile and online channels; and encouraging the use of online and e-banking platform opportunities. These changes to some extent affected providers and their clients differently depending on their ability to adjust quickly to the changes. The Bank of Ghana introduced measures such as a reduction in policy rate by 1.5 percentage points (16 per cent to 14.5 per cent); reduction in primary reserve requirement by 2 percentage points (10 per cent to 8 per cent); and reclassified loans that are past due for up to 30 days as 'current' as in the case of all specialized deposit institutions.

In addition, the government launched a 600 m Ghana cedi (equivalent of \$113 m) stimulus package to cover 200,000 medium- and small-scale enterprises. The government introduced relief on water and electricity comprising a fully subsidized water bill for 3 months for all consumers; free electricity consumption (between 0 and 50 kilowatts) and 50 per cent relief for consumption above 50 kilowatts. Ghana Revenue Authority extended filing dates from the 4th month to the 6th month; granted a remission of penalties to taxpayers who redeemed their obligations before 30 June 2020; permitted donations to the COVID-19 fight as allowable expenses; and waived taxes on selected Tier 3 withdrawals. The Registrar General's Department extended dates for filing returns for companies with financial year ending 31 December 2019 to 30 June 2020; and companies with financial year ending 30 June 2020 to 31 December 2020.

Lessons from the disruptions

The progress being made in the financial inclusion agenda in Ghana will be undermined because of loss of confidence in the failed institutions and this may reduce the confidence of the public in the NBFIs and the entire financial system. The collapse of a number of NBFIs implies that movement and lodgements of funds between the banking and non-banking institutions will be hampered thus affecting financial intermediation.

The negative wealth effect (pure contagion) produced as a result of the collapse of several MFIs also has negative consequences and undermines the efficiency of the entire financial sector. Loss of savings, deposits, and other investments means a curtailment of productive activities which would feed back into the banking system. Even though the government took bold steps to pay over 14 bn Ghana cedis (the equivalent of \$2.6 bn as of September 2019), the highest amount that could be paid to each largest depositor is 10,000 Ghana cedis (the equivalent of \$2,000).

The NBFI collapse in Ghana has some implications for other countries as well. For example, central banks in nearby African countries should not be hasty to license MFIs so that they mushroom, even though it is a strategic tool for alleviating poverty. Central banks need to be very proactive in terms of handling similar situations in their countries. Perhaps a good lesson to learn is that macro-prudential regulation is also good for NBFIs. Bank of Ghana needs to understand the implications of capital-based regulation which does not seem to be effective and focus on credit guidelines that will push institutions into adopting good lending practices. With capital-based regulation, institutions may focus their attention on meeting the minimum capital requirement at the expense of good lending practices.

One important lesson is that the Central Bank might not be able to regulate and supervise all NBFIs because they are entirely different from traditional commercial banks. In some countries, where the majority of NBFIs are scattered across the breadth and length of communities (especially in remote areas), they are regulated by specialized agencies because regulating and supervising become expensive and cost-ineffective. There is therefore a lesson to be learned from this.

Lessons from COVID-19 lockdown

NBFIs are at risk in the coming storm in Ghana should the pandemic become endemic. While the traditional banking sector had several resuscitation mechanisms in place the story is different in the microfinance sector. Most NBFIs did not have succession plans, contingency and capital plans, and disaster recovery plans as well. What this means is that in the future NBFIs should be compelled to document and have in place mechanisms that will enable them to bounce back from shocks. Digital and remote payment mechanisms may be central to the global COVID-19 response and any other similar occurrences in future. Thus, the use of mobile money and digital platforms in the era of COVID-19 implies that government and service providers should push for a reduction in costs associated with these channels. Even though the Government of Ghana through the Central Bank allowed mobile phone subscribers to open a mobile wallet and transfer up to 1,000 Ghana cedis (equivalent of $170) daily without providing additional documentation, there is still the need to further reduce the cost of using digital services. Lowering the barriers for mobile banking and digital financial services can also help individuals and households weather the economic impact of the pandemic. Overall, the pandemic has had serious negative repercussions for the entire financial sector's efficiency which has taught NBFIs many lessons The time has come for NBFIs to embrace digital and remote banking activities to reach out to the majority of unserved, underserved, and the unbanked.

Conclusions

The paper sought to provide a chronology of NBFI activities in Ghana from a well-performing sector to a time of collapse. Further, the paper examines some effects of the COVID-19 lockdown and draws lessons learned. Despite the disruptions, the sector was proven to be resilient until the global pandemic hit economies. While one could describe the clean-up as a major contributing factor that affected some NBFIs, it also ensured continuous provision of safe financial services. It is clear that indirectly the clean-up has had some negative repercussions for institutions but at the same has protected 'innocent' customers. To maintain soundness and sanity in the sector, affected institutions need to adhere to the regulatory requirements and comply with basic but fundamental business principles. While this is important, the Bank of Ghana also needs to re-visit the regulatory and supervisory landscape of the NBFI sector, especially for microfinance institutions. Regulation laxity seems to have been swallowed by the regulator and this needs to be re-visited to avoid future occurrences. To address the liquidity challenge which was one of the major causes of the revocation of licences it is perhaps about time that the laws allowed foreign participation to strengthen the liquidity base of MFIs. A voluntary code of conduct of good practice to be adopted by all NBFIs will be a welcome step.

Regarding the lockdown, the time has come for NBFIs to incorporate digital delivery services into their activities. Policy should focus on ensuring that this becomes part of the licensing requirements for potential NBFIs and all established financial institutions. The need for a policy on establishing a disaster recovery fund for NBFIs has become critical. This will ensure that NBFIs are insulated from the impaired loan portfolio in times of crises like COVID-19 and its lockdown. The future is unknown for NBFIs as the pandemic continues to erupt, and government, the Central Bank, the Ministry of Finance, and all other stakeholders are obliged to take digitalization and remote banking policies seriously. Finally, Bank of Ghana needs to consider redesigning the regulatory framework taking into account the effect and management of potential pandemics. In future, we will track the effect of the pandemic after the lockdown has been eased.

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