

Institutional determinants of an efficient e-zwich payments development strategy

A Ghanaian scenario

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Abstract:

The study is based on a case study conducted in Ghana to examine the challenges of e-zwich electronic payment system. Its central goal is to develop insights into factors affecting the intention to use e-zwich payments from the consumers' perspective. This is carried out using semi-structured interviews with national payment experts, as well as case studies markedly enrich data quality. Despite this stunning growth rate of e-zwich, however, there is still a significant barrier that prevents e-zwich project to be established and strengthened in Ghana. Therefore, particular emphasis is laid on the impact of institutional factors on e-zwich payments on the consumer. This paper examines the use of institutional theory as a conceptually rich lens to serve as a foundation for understanding the drivers for higher payment system efficiency. The results provide a guideline for decision-makers to develop suitable solutions that can encourage the adoption of e-payment systems. It also forms a basis for the assessment of related policy measures with a focus on the e-zwich project in terms of their efficiency-enhancing effect. The outcome of this paper recommends that the central government should not only direct the creation of a harmonized market but also focuses on the demand-side pull and the supply-side push, to enable rapid adoption of e-zwich. Specifically, the strategy will guide the Government of Ghana and industry stakeholders to lead on towards a cashless economy by promoting e-zwich. The paper concludes with a brief discussion to suggest key factors that might have exerted some important influences on the future of "national e-payment strategy" with specific references to the e-zwich payment system. The barriers to the e-payment system are no longer technical, but political.

Keywords: Institutional theory, e-zwich, partisan politics, drivers, digital payments, cashless economy, barriers, Ghana.

Introduction

In recent years, Ghana's payment landscape has witnessed a significant number of innovative developments. These efforts have generated meaningful discussion among financial experts and other stakeholders in the policymaking process. The resilience of the payment systems has gained increasing importance, for consumers and merchants alike to migrate to electronic payments, a step in the broader transition towards what Kalakota et.al (1997) calls the development of electronic payment systems which centered around the reduction of operational and payments processing costs. The Bank of Ghana undertook several reforms to establish a safer, more resilient, and responsible financial system serving the general interests of the economy. On a related note, this policy initiative is to set Ghana on a path towards an electronic payment regime in the sub-region. The

national payment systems Act 2003 (Act 662) and services Act and other financial system policy provide a framework for the development of Ghana's payment systems to boost ongoing digitization. By this Act, the BoG is empowered under the Bank of Ghana Act to oversee the overall function of the financial market infrastructures, and efficiency of payment as well as protect the interest of the public.

In the light of the above, the Central Bank deploy a huge payments-biometrics milestone that has been the birth of a new form factor, the national switch and smart card payment system known as e-zwich. The idea sounds obvious, but e-zwich's development was long-drawn-out. The general excitement peaked when the scheme was launched commercially in 2008. Also, the e-zwich card, a biometric smartcard, was introduced in 2009 and became operational the same year. Ghana Interbank Payment and Settlement Systems (GhIPSS) manages the e-zwich. The e-zwich payment system was introduced with certain anticipated benefits for the individual users, the commercial banks and the economy as a whole (Breckenridge, 2010). The main aim of the introduction of the e-zwich was to create a common platform allow all banks operating in the country which did not have platform switches to join the common platform at very low cost (Quartey et.al, 2014). By the end of 2010, the number of cardholders still growing at a slow but steady pace, saw 48.9 percent (Bank of Ghana 2010). On the surface, the prospect of cashless payments is excellent news may seem like becoming the new normal. A cashless society around the corner, as payment is becoming more digitalized (Arvidsson & Markendahl (2014). However, depository and non-depository institutions welcome the implementation of the National Payment Switch, to promote a more efficient payments system and broadens its coverage to core business opportunities. Since then, the interest from the banking community and retailers has multiplied rapidly. In particular, it was widely hailed as digitization, as well as the larger goal of financial inclusion all rolled into one. This presents an excellent opportunity for consumers to benefit from safer, convenient and more innovative solution offered by payment providers.

A little more than a decade after its launched, e-zwich have not yet gained the necessary wide user base of both merchants and consumers. Building acceptance for the base of the pyramid will not generate immediate, which requires a period to attain stability. However, it is worth noting that, It has been decades since the introduction of e-zwich payment. The scheme is yet to be established and strengthens as Consumers have not yet shown widespread enthusiasm for the scheme. Despite all the opportunities and benefit e-zwich offers in the context of convenience and security, the scheme had fallen behind expectation. The challenges of Ghana's e-zwich, which have attracted attention from researchers, financial expert and policy tin tanks. There are several barriers identified in a series of insightful papers, debated exhaustively of the challenges of (e-zwich) using several theories. A related work conducted by Taddese and Kidan (2005) identified the challenges confronting the adoption of e-payments most African countries lack the legal and regulatory framework as well as the infrastructure which in research finding mentioned that it draws set-backs associated to the system as encountered by merchants and users. For example, Kumaga (2010) in his study categorized the challenges of e-zwich into four main groups which include security, infrastructure, legal and regulatory and socio-cultural issues. D elali Kumaga (2010) argued forcefully that the needed education to realize the full potential of the e-zwich seemed not to be fairly distributed, hence contributed greatly to the challenges of e-zwich. Based on a mixed approach including interviews study by Issahaku (2012), in his study outlined several challenges hindering the use of e-zwich conducted in the Wa Municipality, Ghana. Some major challenges identified in the study include link failure, frequent breakdown of machines, slow process of service delivery and long queues. In the same vein, a study done by the IMANI (2010), an African think tank based in Ghana, has also waded into the teething problems confront e-zwich, point out that e-zwich failure are more of strategic rather than technical. Preliminary findings by these studies identified challenges plaguing the e-zwich as

socio and technical problems; whereas some claim more of strategic rather than technical. However, Antwi et al, (2015) argued forcefully that that the situation of the e-zwich's low patronage by users and merchants cannot be justified as the scheme introduced is less than a decade and therefore, in a nutshell, there is the need to appreciate that such an introduction could take some time to attain the expected patronage. However, both issues pronounced are not necessarily wrong. Perhaps even more important, it is expected that some technical difficulties would be encountered and that these will be resolved over by the passage of time to attain stability and eventually improves feature adoption and use.

All the discussions mentioned naturally brings to the fore e-zwich's challenges is no longer technical, but political. It worth noting, that building a national payment system, current and prospect likely remain a political construct rather than a sound business case, similar to the fate of past approaches to such a potential scenario. Despite some positive steps in recent years, in terms of volume of transactions in the merchant payment processing realm, e-zwich has not been achieved yet and progress towards establishing it has been slower than hoped—as government, and other stakeholders might like it to be. From the perspective of end-users however, e-zwich progress does not necessarily reflect that portion of the informal economy. As already noted, the scheme failed to attract large groups of people that remain heavy users of cash and are heavily dependent on it (in a heavily cash-reliant society). But even beyond those reasons, the available long-run evidence shows even some public sector workers were even forced onto the e-zwich platform following government directives. Not surprisingly, the government action was characterized by multiple tensions that made some agitating civil servant workers spark an angry response. However, a newspaper report shows some workers questioned whether people should be forced to get paid via the scheme. A trade union umbrella body opposed the scheme and overwhelmingly reject the new payment system Ghana Web, (2016). One of the interviewees explained that; *“We protested on the basis that e-zwich, though it may be good, should not be made compulsory. So, it should be optional. Based on that protest, the government suspended the implementation of the policy.”* (Angel Carbonu, NAGRAT, 2019). Reports by IMF (2016) also discussed the use of e-zwich to pay all public salaries, the report further indicated that plans by government to use the system subsequently encountered opposition, particularly from Ghana's public sector unions. Furthermore, report mentioned how the system imposes additional costs and inconveniences payees, in that it does not yet have a sufficiently dense network of service points. One of the interviewees noted. *“The demand has already been created, so players on the supply side must work within the ecosystem to ensure that e-zwich become a reality.”* (Daniel Agyemang Duah student, GTUC, 2019). The objective of this discussion paper is to identify structural drivers and blockers to e-zwich implementation which had already been operational over a decade. It is based on this that this research paper looks at the current state and review prior literature on e-zwich services. The paper focuses on political partisanship as the major barrier of e-zwich, which strongly prolongs the process of wider acceptance. In undertaking this study, the paper sought to answer three central questions: *1. What are the obstacles to the implementation and use of e-zwich? 2. Why do the government encourage the use of e-zwich? 3. Why does the e-zwich project fail to established and strengthened in Ghana? 3. Has the implementation of e-zwich enhanced user-value propositions to have a significant impact on financial inclusion in Ghana?* This paper therefore examines institutional arrangements in the development of electronic payment systems in a specific context. One notable resource is the New Institutional Economics (NIE) theory which provides clear concepts from which to leverage understanding of the institutional processes in the development of e-zwich payment systems. NIE will be discussed in the theoretical approach section of thesis. By using the framework, existing findings can be better understood and applied, both by industry and government when implementing practical solutions.

The paper is split into five sections. Section 2 provides the background features and benefits of e-zwich. Section 3 outlines drivers of the e-zwich system. Section 4 present barriers to e-zwich payment system progress. Section 5 overview of the research method and data collection. Section 6 finally, concluding one outlines some policy issues and comments on future prospects.

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