

MEMORANDUM TO PARLIAMENT

BY

MINISTER FOR FINANCE

ON A

**PROPOSED ADF LOAN OF UA 10.0 MILLION (EQUIVALENT TO USD14.0
MILLION)**

FROM THE

THE AFRICAN DEVELOPMENT BANK

TO FINANCE THE

**GHANA INCENTIVE BASED RISK SHARING SYSTEM FOR
AGRICULTURAL LENDING (GIRSAL) PROJECT**

21ST JANUARY, 2019

1.0 PARLIAMENT DECISION REQUESTED

1.1 Parliament is respectfully requested to consider and approve a proposed credit of **US14.0 million** from the African Development Bank, for the implementation of the Ghana Incentive Based Risk Sharing System for Agricultural Lending (GIRSAL) Project.

2.0 BACKGROUND

2.1 The Ghana Incentive Based Risk Sharing System for Agricultural Lending Project (GIRSAL) is an intervention designed within the context of the country's ongoing agricultural transformation to help accelerate financing and interconnectedness of the agricultural sector by ensuring that key operators within the sector are functioning at optimal levels and contributing significantly towards export growth and import substitution.

2.2 The core policies driving this agenda are the President's Coordinated Programme of Economic and Social Development Policies (CPESDP), the Food and Agricultural Sector Development Policy (FASDEP) and Planting for Food and Jobs (PFJ) Campaign. The central theme of these policies is to reposition agriculture as the driving force for economic growth and development.

2.3 In spite of all the interventions by government, access to finance still remains a challenge to the agriculture sector due to the perceived risks associated with the sector by many financial institutions. Ironically, agricultural lending interest rates in Ghana are frequently in double digits, while less than 6 per cent of total bank lending goes to the sector that accounts for about 45 per cent of all formal and informal employments.

2.4 To address this weakness, government intends to focus on creating the enabling environment to support the financing and de-risking of the agriculture value chain system in Ghana.

2.5 The proposed project, which is structured to support agriculture across the country, seeks to de-risk the agriculture sector as well as promote incentives and enablers in agriculture financing.

3.0 PROJECT DESCRIPTION

3.1 The objective of the project is to reduce the perceived risk of agriculture financing and to crowd in private finance to support smallholder farmers across the country. The objectives of the project are expected to be achieved through the implementation of the three complementary components. These include de-risking the sector, promoting incentives and enablers of agriculture financing, and management of the project. The first and second components are divided into three initiatives each as follows:

3.2 *Project Components*

Component 1: De-risking the agriculture sector

This component is sub-divided into three sub components namely,

- *Credit Guarantee Scheme*: This would entail the provision of guarantees to participating commercial banks and other financial institutions on individual or portfolio basis. The expected level of risk exposure that would be covered will depend on the particular activity and the value chain involved but could be up to 80% of the guarantee value.

- *Technical Assistance Facility:* This would involve the building of the capacity of banks to lend and build delivery platforms in support of agricultural lending. It would also involve building the capacity of farmers and other value chain actors by assisting them in managing market and financial activities.
- *Agriculture Insurance Facility:* This would be used to identify existing insurable risks and related solutions for coverage as well as assist in the development of such solutions while linking such products to the loan provided by the banks and loan beneficiaries.

Component 2: Promoting Incentives and Enablers of Agriculture Financing

This component is sub divided into three sub components as follows:

- *Bank Rating Systems:* This would be used to rate banks according to their effectiveness in lending to agriculture.
- *Bank Incentives Mechanisms:* Targeted incentives would be provided to encourage banks that roll out long-term financing, position themselves strategically in the implementation of the scheme and show commitment to agricultural lending.
- *Digital Finance Platforms:* This sub-component would cut across all other components of the project to ensure an integrated system that would promote financial inclusion.

Component 3: Project Management. This component involves activities relating to the day-to-day management of GIRSA.

4.0 INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

4.1 GIRSAL is an autonomous, specialized financial institution focused on enabling the acceleration of access to risk adjusted credit to the agriculture sector in Ghana. It is established as a Limited Liability Company registered in Ghana by the Registrar General's Department. It will operate independently of Bank of Ghana, and other agencies and institutions of the Government of Ghana. Its structural and operational designs were determined after close collaboration with various stakeholders including farmer groups, financial institutions (FIs), Ministries, Departments and Agencies (MDAs), other agribusiness ecosystem participants, development partners and financial service providers. The GIRSAL will implement the Credit Guarantee Risk Sharing facility.

4.2 GIRSAL will be jointly regulated by Bank of Ghana and the National Insurance Commission. The Chief Executive Officer (CEO) would be in charge of the day-to-day operation of GIRSAL, supported by the Chief Operating Officer (COO) and Credit Risk Officer (CRO). The various functional units including the Treasury, Financial Control, and Administration would report to the CRO whilst Agriculture Insurance, Technical Assistance, Marketing and Digital Financial Services report to the Chief Operating Officer. GIRSAL would be governed by a Board of Directors that would be responsible for providing overall policy guidance to the entity whose operational guidelines would be based mainly on the principles outlined in the Basel Guideline on Corporate governance.

4.3 The Board shall have the overall responsibility for approving and overseeing management's implementation of the entity's strategic objectives, governance framework and corporate culture. To enhance control, there shall be an internal audit function, which will carry out periodic review of GIRSAL operations and report to the audit committee of the Board. Internal Audit will also monitor implementation of external audit recommendations.

5.0 FINANCIAL IMPLICATIONS

5.1	The total cost of the project	UA 44.64 million (\$62.44m)
	ADF contribution is	UA 10.00 million (approx. \$14.0m)
	Bank of Ghana contribution	Ghs 200.0m
	AGRA (Technical Assistance)	\$ 0.35 m

The financing of USD 14.0 million from the Africa Development Fund (ADF) is a credit facility with blend terms as follows:

Grace Period (moratorium)	5 years
Repayment Period	30 years
Interest Charge	1% p.a.
Commitment Charge	0.5% p.a
Service Charge	0.75% p.a
Grant Element	35%

5.2 Approximately 99.93% of the ADF loan of UA 10.00 million would be channelled towards capitalization of the credit guarantee fund because this component provides the highest potential for income generation that would contribute to the servicing of

the loan. A residual percentage of 0.064% amounting of approximately \$100,000 would be applied to component two of the project. Bank of Ghana's contribution of Ghs 200.0 million would also be used in funding the capitalization of the credit guarantee fund.

6.0 JUSTIFICATION FOR LOCAL COSTS FINANCING

6.1 Projections made in respect of GIRSAL indicated that a minimum of Ghs250.0 million would be required to commence a guarantee scheme for agriculture lending. Due to the fact that Bank of Ghana provided Ghs 200.0 million, there was funding gap of at least Ghs50.0 million. It is in view of this that Government of Ghana approached the Bank (AfDB) to provide financing support to fund the financing gap under the Bank's Feed Africa Strategy.

7.0 FINANCIAL IMPACT

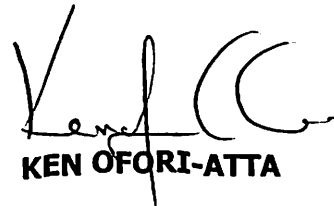
7.1 The execution of GIRSAL would lead to expanded commercial bank and financial institutions' lending to agricultural value chains; reduced effective interest rates for agribusiness loans attached to GIRSAL credit guarantee scheme; reduced loan processing time; improved loan tenor terms and produce multiplier effects for crowding-in commercial lending into agriculture, among other impacts.

7.2 GIRSAL would be rolled out through value chain prioritization based on export potential (vegetables, rubber, oil-palm, cashew & pineapples) and import substitution (grains, oil-palm, cassava, vegetables and aquaculture). The value chain actors will therefore vary depending on the commodity and would include input

suppliers, farmers, aggregators, quality control, private haulers (transporters), warehousing, marketers and processors.

8.0 CONCLUSION

8.1 On the basis of the above, Parliament is respectfully requested to consider and approve the Financing Agreement to enable African Development Fund provide a financing of UA 10.0 million (approx. \$14.0 million) in accordance with the provisions of Article 181 of the 1992 constitution.



KEN OFORI-ATTA

MINISTER FOR FINANCE

21st January, 2019

*In case of reply the
number and date of this
letter should be quoted.*

My Ref. No OPCA.3/3/180119

Your Ref. No.....



REPUBLIC OF GHANA

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CONFIDENTIAL

18th January, 2019

PROPOSED LOAN OF UA10.0 MILLION (EQUIVALENT TO
USD14.0 MILLION) FROM THE AFRICAN DEVELOPMENT BANK TO FINANCE
THE GHANA INCENTIVE-BASED RISK-SHARING SYSTEM FOR
AGRICULTURAL LENDING (GIRSAL) PROJECT

Cabinet at its Forty-sixth meeting held on Wednesday, 16th January, 2019 considered a report of the Cabinet Committee on Economic Matters on the above-mentioned Memorandum submitted by the Minister for Finance.

2. The Memorandum requested Cabinet to consider, approve and recommend to Parliament, a proposed credit of UA10.0 million (equivalent to USD14.0 million) from the African Development Bank, for the implementation of the Ghana Incentive-based Risk-sharing System for Agricultural Lending (GIRSAL) Project.

3. Cabinet approved the Memorandum and recommended same to Parliament for consideration.

4. I should be grateful if you could take requisite action on the decision by Cabinet.

MERCY DEBRAH-KARIKARI
SECRETARY TO THE CABINET

THE HON. MINISTER FOR FINANCE

cc: Chief of Staff
Secretary to the President
Secretary to the Vice President
Hon. Minister for Parliamentary
Affairs
Chairperson, Cabinet Committee on
Economic Matters