

IN THE FIRST MEETING OF THE THIRD SESSION OF THE SEVENTH PARLIAMENT OF THE  
FOURTH REPUBLIC OF GHANA

**REPORT OF THE FINANCE COMMITTEE ON THE LOAN AGREEMENT BETWEEN  
THE GOVERNMENT OF GHANA AND THE AFRICAN DEVELOPMENT BANK  
(AfDB) FOR AN AMOUNT OF TEN MILLION UNITS OF ACCOUNTS (UA 10.00  
MILLION) (EQUIVALENT TO US\$ 14.00 MILLION) TO FINANCE THE GHANA  
INCENTIVE-BASED RISK-SHARING SYSTEM FOR AGRICULTURAL LENDING  
(GIRSAL) PROJECT**

**1.0 INTRODUCTION**

The request for approval of the Loan Agreement between the Government of Ghana and the African Development Bank (AfDB) for an amount of Ten Million Units of Accounts (UA 10.00 Million) (Equivalent to US\$ 14.00 Million) to finance the Ghana Incentive-Based Risk-Sharing System For Agricultural Lending (GIRSAL) Project was presented to the House on Tuesday, 5<sup>th</sup> February, 2019 in accordance with Article 181 of the 1992 Constitution.

Rt. Hon Speaker referred the Agreement to the Finance Committee for consideration and report in accordance with Orders 169 of the Standing Orders of the House.

The Committee was assisted in its deliberations by a Deputy Minister for Finance, Mrs. Abena Osei Asare, and officials from the Ministry of Finance and Bank of Ghana.



## **2.0 BACKGROUND**

Agricultural credit plays an important role in agricultural development. Therefore, facilitation of access to credit can raise productive investment as access to credit plays a crucial role in the elimination of farmer's financial constraints to invest in farm activities, increasing productivity and improving technologies.

Generally, credit accessibility is important for improvement of quality and quantity of farm products, thereby increasing farmer's income and reducing rural-urban migration. Due to this, Government has put in place a number of measures to help improve access to credit.

In spite of all the interventions by government, access to finance still remains a challenge to the Agriculture Sector. This is mainly due to the perceived risks associated with the sector by many financial institutions. Ironically, agricultural lending rates in Ghana are frequently in double digits, while less than six per cent (6%) of total bank lending goes to the Sector that accounts for Forty-Five (45) per cent of all formal and informal employments.

In order to address these perceived risks, Government is creating the enabling environment to support the financing and de-risking of the agriculture value chain system in Ghana. This will be done through the Ghana Incentive-Based Risk-Sharing System for Agricultural Lending (GIRSAL) Project.

The Ghana Incentive-Based Risk-Sharing System for Agricultural Lending (GIRSAL) Project is an intervention that has been 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. 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.

Under the project, the GIRSAL Secretariat would be 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 farmers groups, Financial Institutions (FIs), Ministries, Departments and Agencies (MDAs), other agribusiness ecosystem participants, development partners and financial service providers. The GIRSAL Project will implement a Credit Guarantee Risk Sharing facility.

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 Operation Officer (COO) and Credit Risk Officer (CRO). The various functional units including 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 Guidelines on Corporate Governance.

The core policies driving this project 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.

GIRSAL, when established would be an autonomous, specialised financial institution focused on enabling the acceleration of access to risk adjusted credit to the Agriculture Sector in Ghana.

In order to execute this project, a total amount of Two Hundred Million Ghana Cedis (GH¢250 Million) is to be sourced from Bank of Ghana and the African Development Fund (ADF) would be used as seed money. ADF'S contribution is in the form of a loan amounting to Ten Million Units of Account (UA10.00 Million)(equivalent to US\$14 Million). It is this request that is before Parliament for approval.

### **3.0 PROJECT OBJECTIVE**

The objective of the Project is to reduce the perceived risks of agriculture financing and to crowd in private finance to support smallholder farmers across the country. This would be done through the de-risking of the Agricultural Sector, promoting incentives and enablers of agriculture financing, and management of the project.

### **3.1 Project Components**

The objectives of the project are expected to be achieved through the implementation of the three complementary 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 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.
- **Agricultural Insurance Facility:** This would be used to identify existing insurance risks and related solutions for coverage as well as assist in the development of such solutions whiles linking such products to the loan provided by the banks and loan beneficiaries.

## **Component 2: Promoting Incentives and Enablers of Agriculture Financing**

This is sub divided into three components as follows:

- Bank Rating Systems which 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 is on Project Management** and it involves activities relating to the day –to-day management of GIRSAL.

## **4.0 FINANCING DETAILS**

The terms and conditions of the Credit facility are as follows:

Financing Amount	-	UA 10 Million (approx. US\$14 Million)
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%

## **5.0 OBSERVATIONS**

### **5.1 Benefits of GIRSAL Project**

The Committee observed that when implemented, the Project would help reduce effective interest rates for agribusiness loans attached to GIRSAL credit guarantee scheme; reduce loan processing time; improve loan tenor terms and

produce multiplier effects for crowding-in commercial lending into agriculture, among other impacts.

The Committee was informed that the project 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.

## **5.2 Total Funding required for the Project**

The Committee was informed that the total funding required for the project is Forty-Four Million, Six Hundred and Forty Million Units of Accounts (UA44.64 million) [equivalent to Sixty-two Million, Four Hundred and Forty United States Dollars (\$62.44m)]. Of this amount, the African Development Fund (ADF) is contributing Ten Million Units of Accounts (UA 10.00 Million) (equivalent to US\$14 Million) and the Bank of Ghana is contributing Two Hundred Million Ghana Cedis [(GH¢200.00 Million)]. AGRA would provide Three Hundred and Fifty Thousand US Dollars (US\$350,000). It is expected that other donors would come on board to provide the remainder.

## **5.3 Application of Seed Fund**

The Committee learnt that Bank of Ghana's Contribution of Two Hundred Million Cedis (GH¢200 Million) and 99.93 % of the ADF loan of UA 10.00 Million would be applied to Component One which is setting up the Credit Guarantee Fund. This is 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% of the loan amounting to approximately \$100,000 would be applied to Component Two of the Project.

#### **5.4 Role of the Banks**

The Committee was informed that apart from a few banks that give credit to farmers, most banks lend less than five (5) percent of their credit facilities to the Agricultural Sector as they rather prefer to deal with the other sectors of the economy. Even though some banks have agriculture portfolios, they still do not give credit to small and medium scale farmers as the farming is seen as a high risk venture.

In order to address this challenge and ensure that credit goes to parts of farming where the risk is high, GRISAL would be providing financial support to the financial institutions who would be enabled to give credit to the entire agriculture value chain. This would be done through the credit guarantee risk free facility which would enable the financial institutions to lend to the farmers risk free.

The Committee was informed that the Banks were consulted on this arrangement and they are satisfied with it as it helps reduce the inherit risk in the Sector. Further, farmers would also be encouraged to form cooperatives since most of these are peasant farmers.

#### **5.5 Secretariat of GIRSAL**

The Committee learnt that the Secretariat has been established. The Ministry is in the process of appointing the Chief Executive Officer as well as other staff.

The Committee was informed that the project is expected to be operational by the end of the second quarter.

#### **5.6 Role of the Ministry of Food and Agriculture**

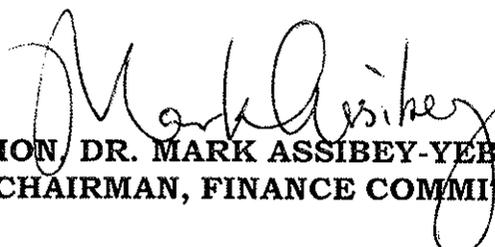
The Committee was informed that the MoFA has been very instrumental in the development of the project. They have been responsible for all the technical details for the project. Further, the technical assistance from AGRA would be channeled through MoFA as they work closely with them. The Ministry of

Finance and Bank of Ghana are only responsible for the financing aspects of the project.

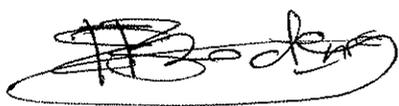
## **6.0 CONCLUSION**

In view of the immense benefits to be derived from this project, the Committee recommends to the House to adopt its report and approve the request for approval of the Loan Agreement between the Government of Ghana and the African Development Bank (ADF) for an amount of Ten Million Units of Accounts (UA 10.00 Million) (Equivalent to US\$ 14.00 Million) to finance the Ghana Incentive-Based Risk-Sharing System for Agricultural Lending (GIRSAL) Project in accordance with Article 181 of the 1992 Constitution, Section 56 of the Public Financial Management Act, 2016 (Act 921) and Orders 169 of the Standing Orders of the Parliament of Ghana.

Respectfully Submitted.



**HON. DR. MARK ASSIBEY-YEBOAH**  
**(CHAIRMAN, FINANCE COMMITTEE)**



**EVELYN BREFO-BOATENG (MS)**  
**(CLERK, FINANCE COMMITTEE)**

**19<sup>th</sup> February, 2019**

