

**IN THE FOURTH SESSION OF THE SEVENTH PARLIAMENT OF THE FOURTH REPUBLIC
OF GHANA**

**REPORT OF THE FINANCE COMMITTEE ON FINANCING
AGREEMENT BETWEEN THE GOVERNMENT OF THE REPUBLIC
OF GHANA (REPRESENTED BY THE MINISTRY OF FINANCE)
AND THE INTERNATIONAL DEVELOPMENT ASSOCIATION FOR
AN AMOUNT OF TWO HUNDRED AND FIFTY MILLION UNITED
STATES DOLLARS (US\$250,000,000.00) TO FINANCE THE
GHANA DEVELOPMENT FINANCE PROJECT (GDFP)**

1.0 INTRODUCTION

The Financing Agreement between the Government of the Republic of Ghana (represented by the Ministry of Finance) and the International Development Association for an amount of two Hundred and Fifty Million United States Dollars (US\$250,000,000.00) to finance the Ghana Development Finance Project (GDFP) was presented to the House on Tuesday, 3rd November, 2020 by the Hon. Minister responsible for Monitoring and Evaluation, Hon. Dr. Anthony Akoto Osei on behalf of the Minister for Finance.

Rt. Hon. Speaker referred the request to the Finance Committee for consideration and report.

The Committee met with a Deputy Minister for Finance, Hon. Abena Osei Asare and officials from the Ministry of Finance to consider the request.

2.0 DOCUMENTS REFERRED TO

The Committee referred to the following documents during its deliberations:

- The 1992 Constitution of Ghana;
- The Public Financial Management Act, 2016 (Act 921); and
- The Standing Orders of the Parliament of Ghana.

3.0 BACKGROUND

Over the years, the private sector has always been regarded as the engine of economic growth in Ghana's medium and long-term policy frameworks/strategies. Recently, Government's vision is to transform the country's economy for better development outcomes, particularly job creation. In this regard the private sector, which contributes about 77 percent to GDP and employs about 85 percent of the working population is recognized as a key partner.

Studies have established a causal relationship between financial depth and national growth. Thus, providing access to credit to the most efficient and innovative enterprises will enhance economic growth. However, low access to finance has always been cited as the major constraint to Ghana's private sector development. In 2019, Ghana's credit to the private sector was only 12 percent of GDP, compared to an average of 44.4 percent for lower middle-income countries.

Ghana's financial sector has been characterized among others by: high interest rates-despite recent declines. Average nominal lending rate stood at 21.9 percent as of June 2020, lack of long financing for projects with long gestation period: small/developing capital market which is not yet a reliable complementary source of funding for firms and for critical development sector, and small pension and asset management sectors (about 11 percent of GDP combined).

To spur economic growth in the 60s, the Government established two development finance institutions (DFIs). The National Investment Bank (NIB) to promote rapid industrialization in all sectors of the economy and Agricultural Development Bank (ADB) to provide credit to agriculture. Since their creation, both institutions have gone through multiple restructurings, operating today as commercial banks with diminished focus on their respective target sectors due to lack of term funding, poor financial performance, and change of business models.

In the last three decades, Ghana's financial ecosystem has undergone significant restructuring with the aim of making it more responsive to national development aspirations. These reforms have largely been focused on enhancing regulations, deepening the depths of capital market and addressing the financial needs of key economic agents. The results of these reforms, however, have been mixed and varied.

In recent times, the Ghana Export-Import (EXIM) Bank was established in 2016 to support trade between Ghana and other countries and build Ghana's competitiveness in the international marketplace. Also in 2018, Government established the Ghana Incentive-Based Risk Sharing System for Agriculture Lending (GIRSAL), a risk-sharing facility for agriculture and agribusinesses. GIRSAL aims to double the share of bank lending to the agriculture sector.

4.0 OBJECTIVE OF THE PROJECT

The objective of the project is to support the establishment of a financially sustainable Development Bank Ghana (DBG), to increase access to finance and in particular long-term finance for viable Micro Small and Medium Enterprise (MSMEs) and small corporates.

5.0 PROJECT COMPONENTS

The project has Four (4) components as follows:

Component 1 – Long-term wholesale financing and technical assistance (US\$185.5 million): The component will provide a Line of Credit (LoC) to the DBG to on-lend to Private Finance Institution (PFIs), as well as technical assistance to the Ministry of Finance, Development Bank of Ghana, and Private Finance Institutions.

Subcomponent 1.1: Line of Credit (US\$175 million): Banks in Ghana provide little long-time financing, as the bulk of loans have maturities of less than one year. The lack of access of financing constrains the ability of Ghanaian MSMEs and small corporates to invest in projects with long gestation, limiting economic growth and job creation. The Line of Credit (LoC) will therefore enable the DBG to provide mainly long-term, local currency financing to MSMEs and small corporates operating in agribusiness, manufacturing, and high value services. High –value services are defined to include information technology, tourism, health, education, transport, among others. Special attention will be paid to women owned MSMEs (WMSMEs) and low-carbon and climate-resilient investments. Thus PFIs will be encouraged to reserve 10(percent) of the LoC to WMSMEs and all the financing to MSMEs screened for climate risks.

Subcomponent 1.2: Technical Assistance (US\$10.5 million): This sub-component will finance technical assistance (TA) to the MoF, DBG, and the PFIs. Activities to be supported include: Development/implementation of a coherent development finance policy: development of the regulatory framework for DFIs: capacity strengthening of MoF in the areas development finance policy formulation and coordination: TA to provide advice on the diversification of the shareholding structure of the DBG: TA to the DBG aimed at building its operational capacity to enable it to effectively deliver its mandate: and TA to provide to beneficiary PFIs to accelerate the utilization of the LoC, as well as develop sustainable lending approaches for the target segments.

Component 2- Partial Credit Guarantee (PCG) facility and Digital Financing Platform (US\$56.5 million): it is envisaged that, while the DBG's wholesale financing will improve financial institutions capacity to provide longer tenor financing, it will not necessarily increase their appetite to lend to MSMEs. This component will complement the LoC by leveraging financial institutions own resources for MSME financing by supporting the establishment of a PCG Facility and a Digital Financing Platform.

Subcomponent 2.1- Capitalization of PCG Facility (US\$50 million): PFIs in Ghana refrain from lending to creditworthy MSMEs that lack credit histories and sufficient collateral. The high collateral requirement constrains the ability of firms to borrow enough money to meet their investment needs. The PCG Facility would reduce collateral requirements and financial institutions losses in case of default, encouraging them to lend to creditworthy MSMEs and small corporates that cannot offer enough collateral. Initially projections show that with US\$50 million in capital, the facility would be able to support a cumulative amount of about US\$300 million of PFIs lending to MSMEs during the first four years implementation, assuming an average coverage of 60 percent.

Subcomponent 2.2 Technical Assistance for Partial Credit Guarantee Facility (US\$1.5 million): this subcomponent will support the design study and business plan for the PCG and the development of a financial model as well as the Operations Manual. It will also cover related capacity building of the PCH Facility, including the recruitment of a credit guarantee adviser, staff training, and TA for development of technical specifications of IT infrastructure and MIS to require for the management of the guarantee operation.

Subcomponent 2.3: Establishment of a Digital Financing Platform (US\$5million); this subcomponent will support the establishment of a digital financing platform to facilitate financing for MSMEs by a wide range

respectively, to ensure effective support for the proposed legal and regulatory reforms and implementation.

Subcomponent 3.2: Capacity Building of Market Operators (US\$1.5 million): This subcomponent will build the capacity of market operators, ensuring they maintain the knowledge and skills needed to deliver professional services to customers.

Component 4: Project Management, Monitoring and Evaluation (US\$2 million): This component will cover project implementation costs, including those related to coordination, procurement, financial management, Monitoring and Evaluation, outreach, and support to the DBG to comply with Environmental and social safeguard and social safeguards requirements.

6.0 TERMS AND CONDITIONS OF THE LOAN

A total amount of **US\$250,000,000.00** will be used to finance the Ghana Development Finance Project. Details of the terms and conditions of the loan is captured below:

Loan Amount	-	US\$250,000,000
Interest Rate	-	1.33% p.a.
Maximum Period (Including 5 year Grace period)	-	30years
Maximum Commitment Charge- (This is waived for 2020)	-	0.5% p.a.
Service Charge	-	1.3% p.a.
Grant Element	-	26.33%

7.0 OBSERVATIONS

7.1 Rationale for the Project

The Committee observed that the proposed Ghana Development Finance Project (GDFFP) is fully aligned with Government's objective of addressing the high cost of capital in the country. Further improving access to credit to Small and Medium Scale Enterprises (SMEs) is also part of the President's Coordinated Programme of Economic and Social Development Policies (CPESDP) – 2017 -2021 and the Ghana Beyond Aid vision.

The project will support firms to access new markets, innovate and pursue growth and productivity. It would also enhance opportunities that businesses could not finance through their internal sources.

The Committee further noted that the project is crucial to assist the nation to recover from the devastating impact of the COVID-19 pandemic. The project would help establish the Development Bank of Ghana (DBG) as a major cog of the Government's strategy to revitalize the economy as outlined in the Ghana Covid-19 Alleviation and Revitalization of Enterprises Support (GhanaCARES) Programme.

The project would therefore help to provide private institutions and state owned DFIs by offering them long-term financing, credit guarantees, factoring and other services.

7.2 Project Duration

The Committee was informed that the project will be implemented over a seven-year period and it is expected to be completed by December 31, 2027.

7.3 Expected Outcomes

The Committee observed that expected benefits to be derived from the project will include:

- Increased long term financing to about 12,000 MSMEs;

- Competitively priced, local currency term funding provided for target beneficiaries;
- Improved access to finance MSMEs through the deployment of the PCG Facility and a digital financing platform;
- Legal and regulatory framework for Ghana's financial sector strengthened;
- Oversight and capacity of capital market development.

7.4 Project Beneficiaries

The Committee observed that the primary beneficiaries of the project are creditworthy Ghanaian MSMEs that lack access to finance (in particular, long-term finance), small corporates, and Women-owned and led Micro Small and Medium Enterprises, Private Finance Initiatives, SEC and its staff, Capital market operators- fund managers, brokers/ dealers and custodians.

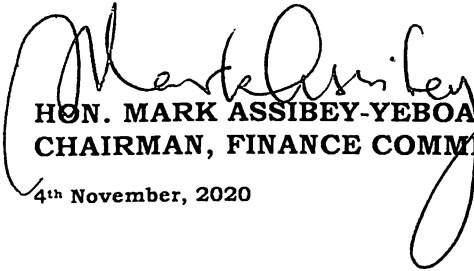
This would be done through direct support to the Development Bank of Ghana/Partial Credit Guarantee Facility, Securities and Exchange Commission, Ghana Investment and Security Institute, and Ministry of Finance.

8.0 CONCLUSION

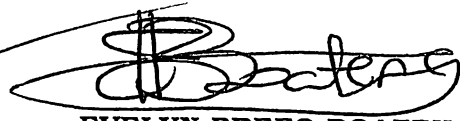
The Committee is of the view that the request will go a long way to improve access to credit to MSMEs as well as opening up the economy and create jobs.

The Committee therefore recommends to the House to adopt its report and to approve the Financing Agreement between the Government of the Republic of Ghana (represented by the Ministry of Finance) and the International Development Association for an amount of two Hundred and Fifty Million United States Dollars (US\$250,000,000.00) to finance the Ghana Development Finance Project (GDFP) in accordance with Article 181 of the Constitution, the Public Financial Management Act, 2016 (Act 921) and the Standing Orders of Parliament.

Respectfully submitted.


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

4th November, 2020


EVELYN BREFO-BOATENG (MS)
CLERK TO THE COMMITTEE