REPORT OF THE FINANCE COMMITTEE ON THE FINANCE CONTRACT AGREEMENT BETWEEN THE GOVERNMENT OF THE REPUBLIC OF GHANA (REPRESENTED BY THE MINISTRY OF FINANCE) AND THE EUROPEAN INVESTMENT BANK FOR AN AMOUNT OF ONE HUNDRED AND SEVENTY MILLION EUROS (€170,000,000.00) FOR THE ESTABLISHMENT OF THE DEVELOPMENT BANK GHANA (DBG)

1.0 INTRODUCTION

The Finance Contract Agreement between the Government of the Republic of Ghana (represented by the Ministry of Finance) and the European Investment Bank for an amount of One Hundred and Seventy Million Euros (€170,000,000.00) for the establishment of the Development Bank Ghana (DBG) was presented to the House on Wednesday, 4th November, 2020 by the Hon. Minister responsible for Parliamentary Affairs, Hon. Osei Kyei-Mensah-Bonsu on behalf of the Minster 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. Kwaku Kwarteng 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

Access to long term finance especially for the economic sectors remains one of the challenges of most countries. Even though conventional banks such as commercial, industrial and investment banks have supported long term financing, the funds have mostly fallen short of the scope and volume required to sustainably support the economic sectors. Capital constraints therefore led to the establishment of the first development bank, Societe General de Belgique in 1822 in Belgium to provide long term capital and technical assistance.

The establishment of the Development Banks did not however gain prominence until after World War II where the massive reconstruction of war-ravaged countries let to its proliferation.

Since then, countries have established development banks to fulfil financial, administrative and technical requirements for the development of transportation, electricity, communication, health, education, agriculture, industry, and mining, among others. These banks are formed in response to failures of the capital markets to provide the financing necessary for entrepreneurial activity and industrialization.

In economies with significant capital constraints, these banks serve to alleviate capital scarcity and promote entrepreneurial action to boost new or existing industries.

These banks do not only provide long-term lending for large industrial and infrastructure projects but also for the new ventures needed to bear the costs of discovery of new technologies and productive processes. Additionally, information asymmetries and the inherent riskiness of development projects result in high interest rates deterring otherwise willing investors.

In Ghana, inadequate supply of long-term financing consistently constraints the ability of enterprises to invest in projects with long gestation periods, limiting economic growth and job creation. Government first hinted the idea of establishing a Development Bank in the 2017 Budget Statement and Economic Policy. The move is to provide innovative and long term financing to support the economic transformation programme of government which is anchored on the Ghana Beyond Aid vision. In subsequent budget statements and economic policies, Government has sought to make its intentions clear to establish the bank as a vehicle for transforming industry, agriculture, agro-processing, manufacturing, ICT and Tourism.

The DBG would therefore serve as a promotional bank with focus on mobilising medium and long-term funds to support targeted sectors essential for Ghana's development. It would provide partial credit guarantee facilities and help to develop the capital market.

The design of the DBG is based on recommendations made by a Task Force established by the Ministry of Finance to draw on international best practices and a feasibility study carried out by PriceWaterhouse Coopers (PwC India).

4.0 OBJECT OF THE LOAN

The object of the loan is to seek funding to finance the establishment of the Development Bank Ghana (DBG).

5.0 TERMS AND CONDITIONS OF THE LOAN

A total amount of **€170.00 Million** is being provided by the European Investment Bank. Details of the terms and conditions are captured in Table 1 below:

Table 1 Terms and Conditions of the Loan

Item	Details
Loan Amount	€170,000,000
Interest Rate	0.503% as at 30th October, 2020 (subject to change and to be fixed at the date of disbursement of each tranche)
Grace Period	5 years
Repayment Period	15years
Tenor	20 years
Grant Element	40.59%

6.0 OBSERVATIONS

6.1 Rationale for the Loan

The Committee observed that the Government in recent years has made it clear in its Budget Statements that it intends to establish a Development Bank as a vehicle for transforming the country as a whole.

The Development Bank will serve as a promotional bank focused on mobilising medium to long term funds to support industry, agriculture, agro-processing, manufacturing, ICT and other targeted sectors of the economy.

In order to realise this objective, the Government has taken the required steps to establish the Development Bank Ghana. The bank would operate as a wholesale bank. It will lend funds to Participating Financial Institutions (PFIs) which will make sub-loans to sub-borrowers and bear the risk. The wholesale bank model would strategically position the bank not to consider financial institutions as competitors but rather support them to lengthen their maturities and invariably increase overall lending. The request is to seek approval to acquire the needed funding to establish the Development Bank Ghana (DBG).

6.2 Benefits of the Bank

The Committee observed that the establishment of the bank would:

- Help mobilise medium to long-term domestic and external finance to fund entrepreneurship, industrialization, agricultural modernisation and the technology industry.
- Increase access to medium and long-term funds and reduce credit rationing
- Foster innovation by reducing information asymmetries
- Promote latent capabilities and projects that can generate potential positive externalities to the economy
- Support socially oriented initiatives including high employment
- Increased access to finance by women-owned enterprises
- Support competitiveness of domestic firms; and
- Invest in environmentally friendly projects.

6.3 Progress made so far

The Committee inquired from the Ministry of Finance what progress the Ministry has made so far to establish the bank.

The Ministry responded that an Interim Management Committee IMC) has been set up to undertake the promotional activities required to establish the bank.

6.4 Required Capital of the Bank

The Committee observed that a total amount of US$1.00 Billion would be required as capital to establish the bank. Out this amount, the Government is expected to provide GH¢1.00 Billion as its initial capital contribution. This loan facility would also be used to help augment the finances of the bank and to establish it.

7.0 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 Finance Contract Agreement between the Government of the Republic of Ghana (represented by the Ministry of Finance) and the European Investment Bank for an amount of One Hundred and Seventy Million Euros (€170,000,000.00) for the establishment of the Development Bank Ghana (DBG) 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)	**EVELYN BREFO-BOATENG (MS)**
CHAIRMAN, FINANCE COMMITTEE	**CLERK TO THE COMMITTEE**

6th November, 2020