IN THE SECOND SESSION OF THE EIGHTH PARLIAMENT OF THE FOURTH REPUBLIC OF GHANA

REPORT OF THE FINANCE COMMITTEE ON THE LOAN AGREEMENT BETWEEN THE GOVERNMENT OF THE REPUBLIC OF GHANA (REPRESENTED BY THE MINISTRY OF FINANCE) AND KREDITANSTALT FUR WIEDERAUFBAU (KFW) [THE GERMAN DEVELOPMENT BANK GROUP]), FRANKFURT AM MAIN FOR AN AMOUNT OF TWENTY MILLION EUROS (€20,000,000.00) TO FINANCE THE GREEN CREDIT LINE UNDER THE REFORM AND INVESTMENT PARTNERSHIP BETWEEN THE GOVERNMENT OF THE REPUBLIC OF GHANA AND THE FEDERAL REPUBLIC OF GERMANY.

1.0 INTRODUCTION

The Loan Agreement between the government of the Republic of Ghana (represented by the Ministry of Finance) and Kreditanstalt fur Wiederaufbau (KfW) [the German Development Bank Group]), Frankfurt am Main for an amount of Twenty Million Euros (€20,000,000.00) to finance the Green Credit Line under the Reform and Investment Partnership between the Government of the Republic of Ghana and the Federal Republic of Germany was presented to the House on Tuesday, 8th February, 2022 in accordance with Article 181 of the Constitution and Section 56 of the Public Financial Management Act, 2016, Act 921.

Pursuant to Article 103 of the 1992 Constitution and Orders 169 and 171 of the Standing Orders of the House, the Agreement was referred to the Finance Committee for consideration and report.

The Committee subsequently met and discussed the Agreement with the Hon. Deputy Minister for Finance Dr. John Ampontuah Kumah and officials from the Ministry of Finance.

The Committee hereby submits this report to the House pursuant to Order 161(1) of the Standing Orders of Parliament.

The Committee is grateful to the Deputy Minister and officials from the Ministry of Finance for attending upon it and assisting in the deliberations.

2.0 REFERENCES

The Committee referred to and was guided by the following documents *amongst others* during its deliberations on the Agreements:

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

3.0 BACKGROUND

On 12th December 2017, Ghana and Germany signed a Joint Declaration of Intent on the design of Reform and Investment Partnership to promote private investment and sustainable economic development in the field of Renewable Energy (RE) and Energy Efficiency (EE). The partnership is anchored on the G20 Compact with Africa (CwA) which brings together reform minded African countries, international organisations and bilateral partners from the G20 and beyond to coordinate country-specific reform agenda, support the policy measures and advertise investment opportunities to private investors. As part of the partnership, Germany is providing funding for the implementation of Green Credit Line, to improve access to affordable financing for clean energy in Ghana. The funds would primarily be channelled through Partner Financial Institutions (PFIs) for medium to long term loans to micro, small and medium enterprises (MSMEs) and households for private investment in renewable energy (RE) and energy efficiency (EE) measures and solutions.

4.0 PROJECT OBJECTIVES

The overall objective of the project is to achieve the national target of reducing greenhouse gas emissions by 15% by 2030 and achieving a renewable energy (RE) share of 10% of the total energy mix (excluding hydroelectric power plants). The project would also contribute to the development of a sustainable green finance market as one of the preconditions for promoting RE and EE market in Ghana. Successful implementation of the project would help reduce greenhouse gas emissions and contribute to the achievement of Ghana's Renewable Energy target in the energy mix.

5.0 JUSTIFICATION

Government has in recent years prioritised the development of the Renewable Energy as an alternative to traditional energy sources that relies on fossil fuel in a bid to promote clean energy in Ghana. This has largely been driven by government's commitment to expand electricity access; mitigating national power supply changes; and meeting the international Carbon Dioxide (CO2) emissions reduction commitments under the Paris Agreement on Climate Change.

Cognizant of the potential of renewable energy in minimizing the adverse effects of energy production on the environment, reducing poverty and improving socio-economic development, the Renewable Energy Master Plan (REMP) was developed in 2019 as an investment-focused framework for the RE sector. It is a US$5.6 billion investment plan with 80% of the funds expected to come from the private sector and the remaining 20% from public. Annual investments are estimated at US$ 460 million over the 12-year implementation period of the plan (2019-2030).

The proposed €20.0 million Green Credit Line project would therefore support Ghana towards achieving some of the broad strategies under the REMP, such as:

i. Guarantee local market for RE through local content and local participation actions;
ii. Support the private sector through concessional financing and government affordable credit to RE investments;
iii. Intensify awareness creation on RE;
iv. Build capacity in various aspects of RE development; and
v. Support research and development

6.0 TERMS AND CONDITIONS OF THE LOAN

The Green Credit Line Project is to be financed by Loan facility amounting to Twenty Million Euros (€20,000,000.00) from Kreditanstalt fur Wiederaufbau (KfW) [the German Development Bank Group]), Frankfurt am Main with Technical Assistance Facility grants of €2million which would be used to support the activities of the implementation consultant, development of RE financial products capacity development of PFIs and other institutions, and monitoring. The Funding for the Green Credit Line would be sourced under the following concessional terms:

Facility Amount	:	€20.0 million
Grace period	:	6years
Payment period	:	32 years
Tenor	:	38years
Interest rate	:	0.75% p.a.
Commitment fee	:	0.25% p.a.
Grant element	:	53.26%

7.0 PROJECT SCOPE AND IMPLEMENTATION

The project seeks to expand access to Renewable Energy in Ghana and contribute to attaining Ghana's target of reducing greenhouse gas emissions by 15% by 2030 and achieving a renewable energy (RE) share of 10% of the total energy mix. The program also seeks to address the deficiencies in the supply chain of EE/RE equipment and inventory, and the lack of market awareness about efficient technology and affordable financing for Renewable Energy. The funds to be secured under this Agreement would be channelled through Partner Financial Institutions (PFIs) for medium to long term loans to micro, small and medium enterprises (MSMEs) and households for private investment in renewable energy.

The funds for the Green Credit Line Project, which will be executed by the Energy Commission, will be on-lend to qualified PFIs for further lending to clients. Under the Green Credit Line Project implementation arrangements, the Bank of Ghana would Administer the Funds on behalf of the Ministry of Finance whilst the Ministry would be responsible for the monitoring of loan payment and bearing the currency exchange risk. The selected PFIs will be responsible for lending to the target group and also develop risk appraisal and product for RE/EE.

The Energy Commission, the Project Execution Agency (PEA) will see to the project implementation, monitoring and reporting on the project. It will also host the technical assistance consultant on the project as well as providing secretarial support to the Project.

8.0 OBSERVATIONS

The Committee having carefully examined the Loan Agreement made the following observations:

8.1 On-Lending

The Committee noted that in addition to the loan facility, KfW is also making available a Technical Assistance Facility grants of €2million to support the activities of the implementation consultant, development of Renewable Energy financial products, capacity development of PFIs and other institutions, and monitoring of project implementation. The Loan facility would be on-lend to three participating Financial Institutions for lending to micro, small and medium enterprises (MSMEs) and households to undertake renewable Energy Projects. The Committee noted that the Ministry of Finance and Bank of Ghana entered into an on-lending agreement with three PFIs namely; Ecobank, Stanbic Bank and Agricultural Development Bank. The framework for the on-lending between MoF/BoG and the selected PFIs shall be as follows:

Interest Rate:	6.0%p.a.
Tenor:	10years
Grace period:	2years
Payment period:	8years

Under the agreement, the Participating Financial Institutions (PFIs) would lend the funds to the selected end-beneficiaries within the following framework:

Interest Rate:	up to 15% p.a.
Tenor:	up to 8years
Grace period:	up to 2years
Payment period:	up to 6years

After extensive deliberation on these terms with the officials of the Ministry of Finance, the Committee took the view that the spread between the rates at which MoF/BoG intends to on-lend to PFIs and the rate at which PFIs lend to the final beneficiaries is too wide. The Committee therefore recommends to the House to approve this facility at a capped interest rate of 12% per annum instead of the 15% per annum being proposed by the Ministry of Finance as the rate at which the PFIs would lend to beneficiaries of the facility.

8.2 Financial Impact

The Committee expressed concerns over the worsening rate of debt distress position of the country and the impact of the facility on the country's debt stock. The Deputy Minister informed the Committee that, the facility was factored into government's medium term debt strategy and as a results, forms part of governments borrowing plan for the medium term as published under Appendix 10c of the Budget Statement and Economic Policy of the Government for the 2022 Financial Year. He further assured that, the facility is a concessional loan with favourable terms including a grant element of 53.26%. He therefore urged the Committee to approve the facility to speed up the attainment of the targets contained in the Renewable Energy Master Plan, 2019 which includes the attainment of 10% Renewable Energy in the Country's energy mix.

9.0 CONCLUSION

The Committee after a careful examination of the Agreement is convinced that the facility, when approved will harness the potentials of renewable energy and minimise the adverse effect of energy production on the environment, reduce poverty, increase access to clean energy, improve socio-economic development and increase the percentage of Renewable Energy in the energy mix of the country.

The Committee therefore recommends to the House to adopt this report and approve **the Loan Agreement between the government of the Republic of Ghana (represented by the Ministry of Finance) and Kreditanstalt fur Wiederaufbau (KfW) [the German Development Bank Group], Frankfurt am Main for an amount of Twenty Million Euros (€20,000,000.00) to finance the Green Credit Line under the Reform and Investment Partnership between the Government of the Republic of Ghana and the Federal Republic of Germany** in accordance with Article 181 of the Constitution, Section 56 of the Public Financial Management

Act, 2016 (Act 921) and Order 169 of the Standing Orders of the Parliament of Ghana

Respectfully Submitted.

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HON. KWAKU AGYEMAN KWARTENG	**MRS. JOANA A.S. ADJEI**
(CHAIRMAN, FINANCE COMMITTEE)	**(CLERK, FINANCE COMMITTEE)**

8TH MARCH, 2022