

Press Release:
IPPG urges DBG to prioritize agriculture, manufacturing, and climate finance



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A new report by policy think tank, International Perspective for Policy and Governance (IPPG), has urged the newly established Development Bank of Ghana (DBG) to prioritize funding for agriculture, manufacturing, and climate finance while guarding against political interference if the bank is to make an impact on the economic transformation of the country.

Government has established the DBG as a development finance institution (DFI) with the mandate to support economic transformation in Ghana. The DBG is expected to ease the constraints of long-term financing at competitive rates for entrepreneurs to propel economic growth, create jobs, and expand the domestic revenue base. DBG began operations in December last year having received its operational license from the Bank of Ghana (BoG).

The report, authored by IPPG Research Fellow and Economist, Emmanuel Amoah-Darkwah, and IPPG Co-Director, Seth Owusu-Mante examines the need for the establishment of a DFI in Ghana and the gap DBG can fill within Ghana's socio-economic development agenda to spur economic

growth. The authors highlight the market failures in Ghana's financial market including high cost of credit, limited credit to the private sector, lack of funding for infrastructure development, and unavailability of lending to risky but strategic sectors of the economy such as agriculture as the gap the DBG must fill to unlock sustained long-term investments into the productive sectors of the economy.

The report endorses DBG's business case to provide long-term financing for firms in industry and agriculture but emphasizes that for the business case of the DBG to make sense, the DBG must prioritize agriculture, manufacturing, and climate finance in its initial years of operation given that these sectors are grossly underserved by government and private investors but do have the potential to accelerate Ghana's economic development while spurring the growth of other sectors of the economy.

In addition to providing long-term credits to targeted and prioritized sectors, the report calls on the DBG to diversify its sources of funding and financing instruments to include guarantees, refinancing, equity, and results-based financing which are currently unavailable to the private sector in Ghana. This will ease the constraint on financing for the private sector to spur private sector innovation and growth.

Agriculture

The contribution of agriculture as a percentage of GDP has remained stagnant since 2014, signaling structural financing challenges to transform the Ghanaian economy into more value-added activities. Currently, government spends 4-5 percent of its total budget on agriculture, but the lion's share of that goes to the cocoa subsector. This has resulted in Ghana being a net importer of both raw and processed basic foods including rice, poultry, sugar, and vegetable oils. Ghana's food import bill in 2019 was approximately \$2.3 billion which exceeded the country's 2019 cocoa exports worth \$1.61 billion. The huge size of Ghana's food import bill creates opportunities for investments in import-substitution in key import commodities. DBG must step in to commit innovative long-term financial instruments that can leverage both private and public resources to drive investments, employment, and economic growth across the value chain of agriculture and agribusiness.

Manufacturing

Similar to agriculture, Ghana's manufacturing sector remains stagnant, having recorded declining contributions to GDP and fluctuating growth rates since 2014. Manufacturing entities including micro, small, and medium-sized enterprises (MSMEs) are hampered by major challenges including access to capital and finance, high interest rates, excessive taxes, poor state of automation and technology, and competition from imported goods. By 2030, business-to-business spending in manufacturing in Africa is projected to reach \$666.3 billion. Through the African Continental Free Trade Agreement (AfCFTA), manufacturing entities in Ghana can absorb increasing raw materials from the West African sub region to scale up manufacturing and trade in processed and light manufactured products. The DBG must prioritize coordinated investments for the sector across micro, small, medium, and large industrial firms to create jobs and increased exports to grow the Ghanaian economy.

Climate Finance

Currently, Ghana has no policy framework guiding climate financing despite being vulnerable and very exposed to the adverse effects of climate change. Ghana is already experiencing temperature changes, changes in rainfall patterns, disruption of agricultural systems, and flooding of coastal areas. DBG must fill this important gap to leverage global public and private access to green and climate finance to be channeled into the Ghanaian economy. This will encourage entrepreneurial innovations that conserve the environment, build resilient cities, towns, and health systems, reduces our carbon footprints in the transportation and energy sectors while furthering economic growth.

The report further urges the NPP government to set the standard for government's relationship with the bank by not interfering in credit decisions and appointments. Importantly, the report urges successive governments not to utilize DBG as an avenue for political patronage where party cronies are rewarded. Appointments to the board, management, and staff must be transparent, independent, and based only on professional experiences and competency.

The DBG will operate as a wholesale bank providing lines of credit and partial credit guarantees (PCGs) to eligible participating financial institutions (PFIs) for on-lending to beneficiaries. The bank will need a comprehensive data of private firms in its targeted and prioritized sectors to be able to make effective and well-coordinated credit decisions.

The full report can be downloaded [here](#).

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