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Development Bank Ghana (DBG)
Focus • Funding • Priorities

By Emmanuel Amoah-Darkwah & Seth Owusu-Mante

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IPPG REPORT

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ABBREVIATIONS

AGI	Association of Ghana Industries
ADB	Agriculture Development Bank
AfDB	African Development Bank
AfCFTA	African Continental Free Trade Agreement
BoG	Bank of Ghana
BHC	Bank of Housing and Construction
Cocobod	Ghana Cocoa Board
COP	Conference of Parties to the United Nations Framework Convention on Climate Change
DBs	Development Banks
DFID	Department for International Development
EIB	European Investment Bank
FDI	Foreign Direct Investment
GoG	Government of Ghana
GRR	Ghana Reference Rate
GSS	Ghana Statistical Service
IDA	International Development Association
IFPRI	International Food Policy Research Institute
ITC	International Trade Center
MSMEs	Micro, Small, and Medium-sized Enterprises
NIB	National Investment Bank
NPL	Non-Performing Loan
OECD	Organization for Economic Co-operation and Development
PCGs	Partial Credit Guarantees
PFIs	Participating Financial Institutions

FIGURES

Executive Summary

The Government of Ghana has established the Development Bank Ghana (DBG), 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. Having received its operational license from the Bank of Ghana (BoG), the DBG is set to be operational by the end of December 2021.

In this report, we seek to examine the need and potential impact of the DBG to transform the Ghanaian economy. First, we review the literature to understand the operational context, features, and framework for which development banks are established by governments. Second, we highlight the market failures in the Ghanaian financial market as the gap the DBG must fill to unlock sustained long-term investments into critical sectors of the economy. Third, we discuss the sectors that must be prioritized by the DBG in its early years of operations to accelerate Ghana's economic growth.

We conclude the report with a set of recommendations based on our research and deliberations from the IPPG Policy Forum held on December 2, 2021. A summary of our recommendations is captured below:

- **Priority Funding:** DBG must prioritize funding and investments in agriculture, manufacturing, and climate finance given that these sectors bear the potential to further spur the growth of other sectors through linkage but are grossly financially underserved.

- **Innovative Financing Instruments:** In addition to medium to long-term credits, DBG must employ other forms of innovative financing including guarantees, refinancing, equity, and results-based financing to spur private sector innovation and growth.

- **Review of Mandate & Operations:** Periodic review of the mandate of DBG is paramount to ascertain its impact on the economy. In addition, clear, specific, and quantifiable targets must be set for each fiscal year to provide the basis for evaluating the performance of the bank.

- **Non-Political Interference:** The current government and successive governments must avoid unnecessary interference in credit decisions and operations of the bank. The culture of institutional appointments utilized as a form of political patronage must not be associated with the bank to create and preserve DBG's dignity as an apolitical institution.

Section 1
Introduction

The banking sector is the lifeline of any economy. Banks are primarily established to mobilize deposits and offer credit. For banks to play an effective role in economic transformation, long-term investments are required to support the productive sectors and develop infrastructure. The Bank of Ghana (BoG)[1] has embarked on successive reforms to position banks to play this crucial role of funding development in Ghana, the latest being the 2017 banking reforms.

The 2017 banking sector reforms involved a clean-up of the banking sector, recapitalization, and other regulatory reforms in line with BoG's mandate to promote the safety, soundness, and stability of the financial system to support economic growth (BoG, 2020). Nonetheless, existing commercial banks have over the years not been able to adequately support the country's development process, signifying an existing gap in development financing in Ghana.

In 2018, the Government of Ghana (GoG) announced its intention to establish the Development Bank of Ghana (DBG), a new development finance institution (DFI) with the mandate to support economic transformation in Ghana (MoF, 2019). Accordingly, the Minister of Finance, Ken Ofori-Atta established a task force to advise government on key operational and design features of the DBG.

Price Waterhouse Coopers (PwC) India was further tasked with conducting feasibility studies for the establishment of the bank. Also, in anticipation for the establishment of DBG, the Parliament of Ghana in 2020 passed the Development Finance Institutions Act, 2020 (Act 1032) which received presidential assent on 27th October 2020. The Act establishes a framework for licensing, regulating, and supervising Development Finance Institutions (DFIs) in Ghana by the BoG.

In capitalizing the bank, the World Bank has approved a long-term loan of $250 million[2] through the International Development Association (IDA) to support the establishment of the DBG (World Bank, 2020). The European Investment Bank (EIB) and the German government via the KfW Development Bank have also committed €170 million and €46.6 million respectively as loans for the same cause (EIB, 2021; KfW, 2021). In addition, the African Development Bank (AfDB) has approved a grant of $40 million to help capitalise DBG (AfDB, 2021).

As counterpart funding for the bank, the GoG has paid $200 million out of $250 million promised to capitalise DBG. The BoG is reported to have conducted its due diligence and approved DBG's governing board and key management personnel. The DBG has also received its operational license from the BoG and is expected to officially begin operations by year end 2021(MoF, 2021).

To what extent is Ghana in need of a development bank? This report, part one of a broader series of interactions, research, and advocacy to monitor and assess the impact of the DBG argues that high cost

[1]The Bank of Ghana is Ghana's Central Bank which has oversight responsibility on the banking sector.
[2]$ as used in this report refers to the United States dollar (USD).

of credit, limited credit to the private sector, lack of funding for infrastructure development, and unavailability of long-term financing for risky but strategic sectors of the economy necessitate the need for a DFI such as the DBG in Ghana.

In particular, this report endorses DBG's business case to provide long-term financing for firms in industry and agriculture and further argues that for the DBG to accelerate Ghana's economic transformation, it must in its initial years of operation prioritize funding for agriculture, manufacturing, and climate finance while guarding against political interference.

Structure

The report is organised as follows: First we present a brief overview of national development banks in Section 2. Section 3 examines the need for a development bank in Ghana. The prospects of DBG's contribution to the growth of Ghana's economy is discussed in Section 4. Section 5 discusses the economic sectors DBG must prioritize for funding if the bank is to make an impact on the transformation of Ghana's economy. Risks and risk mitigation to the bank's operation are presented in Section 6. Concluding remarks and recommendations are offered in Section 7.

Section 2
Development Banks in Perspective

2.1. Overview of Development Banks

Development Banks (DBs)[3] are state-owned banks which operate with the sole mandate of financing sectors and borrowers that are typically avoided by commercial banks (Fitch Ratings, 2021). The function of DBs includes the promotion and financing of development projects. This clearly indicates that DBs act as promoters of activities for achieving innovation and investment in strategically important and technically daring projects.

Thus, a primary objective for DBs is to provide long-term and concessional loans to higher-risk customers and industry segments underserved by commercial banks. DBs also act as financial agents and catalysts to bring private, public, external, and domestic financing together to create a financial package for development projects exceeding the financial capabilities of commercial banks (BUJ, 2021). DBs usually have a policy objective that is closely related to the economic development of the country or a given sector (Gutierrez et al., 2011). As of 2020, there are at least 450 national DBs operating globally, with over $ 8 trillion of collective assets and over $ 2 trillion of annual disbursements (CCSI, 2021). In Africa, there are about 95 DBs operating at the subnational, national, and regional levels, with an investment portfolio of about $24 billion annually (AfDB, 2021).

2.2. Features of Development Banks

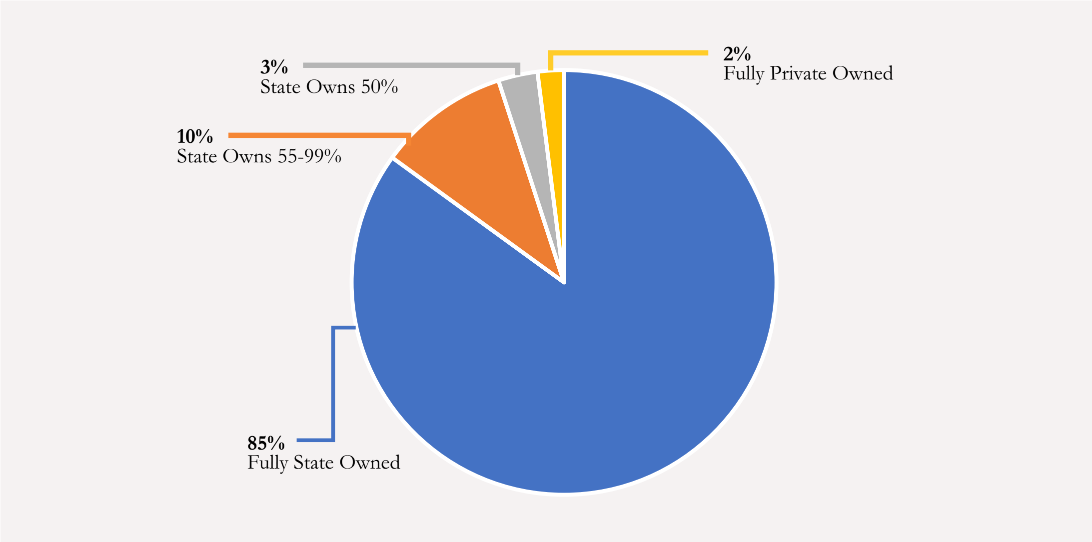
A myriad of scholars and experts have identified the key features of DBs to include:

- DBs do not accept deposits from the public like commercial banks and other financial institutions who entirely depend upon mobilization of customer deposits and savings.
- The key objective of a DB is to serve the public interest rather than earn profits.
- The tools employed by DBs vary, but in general include medium-to long-term credit, subsidized interest rates, credit guarantees, equity, and technical assistance to both private and public sector institutions.

By way of ownership and shareholding, a 2017 survey conducted by the World Bank indicates that, 85 percent of DBs globally are wholly owned by states. 13 percent are jointly owned by states and other shareholders, with only 2 percent of DBs wholly owned by private investors (see Figure 1). DBs thus differ from multilateral development banks (MDBs) which are mostly owned by several sovereign or non-sovereign shareholders and have broader global or regional mandate.

[3] The use of the term "development banks" is not universal. In some jurisdictions, such as China and Vietnam, DBs are known as policy banks. In Malaysia, they are called "development financial institutions" (DFIs). In Latin America, they are referred to as public banks or DBs. In the European Union, they are known as national promotional banks. In some areas, DBs hold a bank license; in others they do not and are established as specialized financial institutions (World Bank, 2018).

Figure 1: Ownership of Development Banks



Source: Adapted from World Bank (2018)

2.3. Impact of Development Banks

DBS are widely considered as an important tool to solve market imperfections. Importantly, they serve as potential sources of finance and expertise in facilitating development goals. Despite their anticipated or perceived influence, the impacts of DBs are not systematically understood by the academic, policy, and financial communities given that empirical research on development banks is scant (Gutierrez et al., 2011; Musacchio et al., 2017; CCSI, 2021).

Even with the limited research on DBs, there is no consensus on their real impacts on socio-economic development. As carefully summarized by Gutierrez et al. (2011): La Porta et al. (2002) failed to find evidence that the presence of state-owned banks promotes economic growth or financial development. However, Levy et al. (2004), revisited the La Porta study and found that its results were not robust. Korner and Schnable (2010) found a negative impact of high DB market share on growth only in countries with a low degree of financial development and low institutional quality, which tends to be the case in developing countries. Andrianova et al. (2010) however found that higher state ownership in the banking sector is associated with faster growth.

Section 3
Ghana's Need for a Development Bank

3.1. Background

In August 2016, the Parliament of Ghana passed the Bank of Ghana Amendment Act, 2016 (Act 918). The objective of this amendment is to significantly strengthen the central bank's functional autonomy, governance, and ability to respond to banking sector crises. As part of a comprehensive financial sector reform, the BoG in 2017 announced a new minimum capital requirement. According to the BoG, banks require a more sophisticated and robust capital framework adequate to transform the banking sector.

Thus, in accordance with Section 28 (1) of the Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930), the BoG revised upward the minimum paid-up capital for existing banks and new entrants from GH¢120 million ($20 million)[4] to GH¢400 million ($66.6 million) from the effective date of 11th September 2017. Existing banks had three options to raise additional capital through:

a) Fresh capital injection.
b) Capitalization of income surplus.
c) A combination of fresh capital injection and capitalization of income surplus (BOG, 2017).

At the end of the recapitalization exercise in January 2019, twenty-three (23) banks met the minimum capital requirement comprising fourteen (14) foreign-controlled banks and nine (9) domestic-controlled banks (BoG, 2019). The capitalization reform in the view of the BoG has developed, strengthened, and modernized the financial sector to support the government's economic vision and transformation agenda (MoF, 2020).

According to the 2020 BoG annual report, total assets of the banking sector now stand at GH¢149.3 billion ($24.883 billion), representing a growth of 15.7 percent but a decline from 22.8 percent at end-December 2019 due to impacts of the Covid-19 pandemic. The banking sector continues to be the dominant sector of the financial industry with 23 banks controlling 91.1 percent of the total assets. Despite the impressive standing of the banks, access to long-term affordable capital is almost non-existent in Ghana (World Bank, 2020).

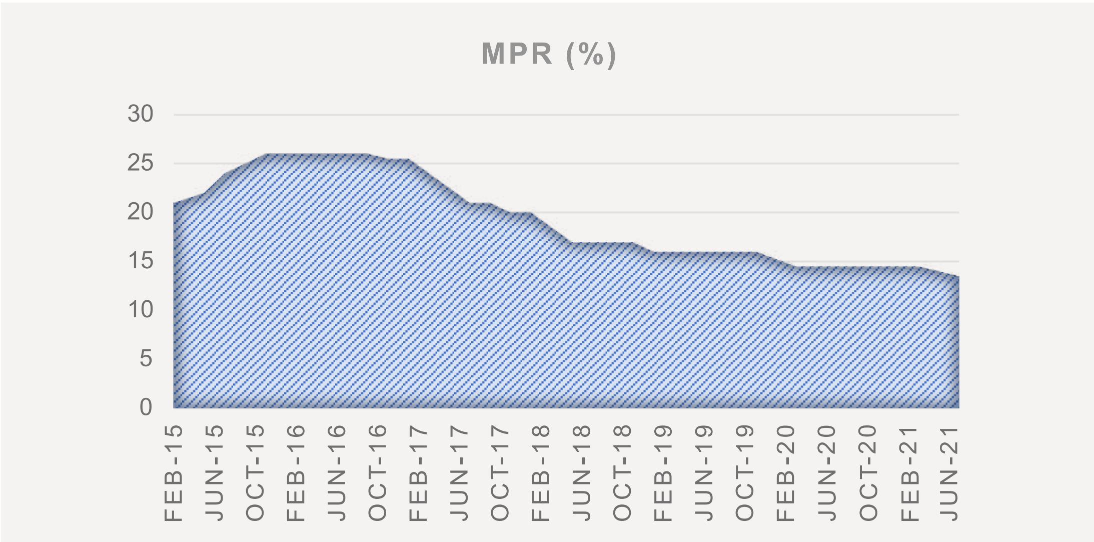
Funding for infrastructure development by commercial banks is also alien to Ghana's financial sector. In addition, support for private sector investments into strategic but so called risky economic sectors are mostly avoided by commercial banks given the limited provision of credit to private businesses. These factors which are discussed in detail in the next subsections necessitate the establishment of a DFI to address the financial challenges in the Ghanaian economy.

[4]Exchange rate of US$1 = GH¢6. This rate is adopted for the entire report

3.1.1. High Cost of Credit

The need for the DBG is occasioned by the high cost of credit in Ghana. Non-availability of affordable credit makes both public and private investments in productive sectors of the economy difficult. Lending rate in Ghana averaged 20.6 percent in June 2021, 6.8 percentage points above the Ghana Reference Rate (GRR)[5] for June 2021 which stood at 13.8 percent. Despite the continuous plummeting of Ghana's Monetary Policy Rate (MPR)[6] as seen in figure 2, lending rate has not declined as expected. The high cost of credit prevents the financing of projects requiring a long gestation period and with positive social return but low or delayed financial return in the Ghanaian economy. The establishment of DBG as a wholesale bank to offer credit at competitive rates can help drive lending rates down.

Figure 2: BoG Monetary Policy Rate (MPR), 2015 - 2021 (percent)



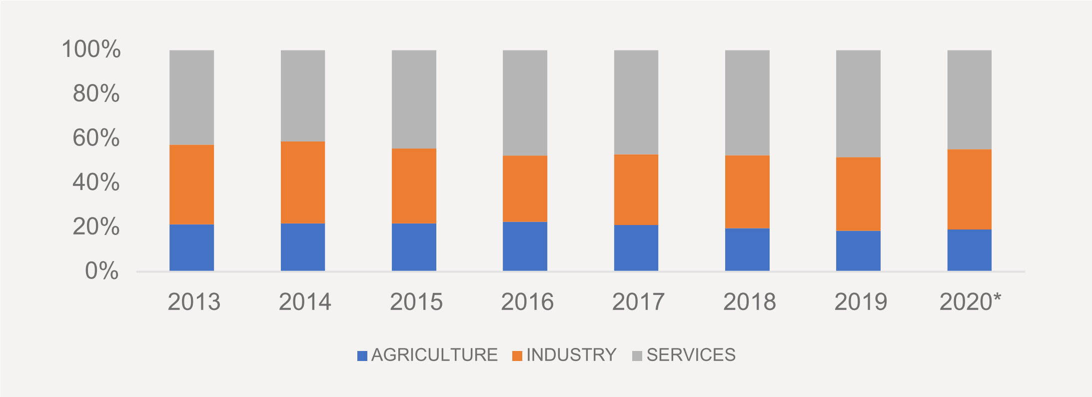
Source: Bank of Ghana (2017)

3.1.2. Limited lending to "Risky" Sectors

Uncertainties inherent in weather and yields induced by the climate crisis, prices, global markets, and other factors that create swings in agriculture incomes have led the sector to be considered as risky by investors and commercial banks. Over the past decade, the services sector has dominated sectoral contribution to Ghana's GDP. As seen in figure 3, the share of agriculture as a percentage of GDP has remained stagnant, signaling structural financing challenges to transform the economy into more value-added activities, according to the World Bank.

[5]The GRR is a weighted average of the 91-day bill rate, interbank market rate, and the monetary policy rate. It is the key indicator in pricing loans in the economy.
[6]Same as the GRR

Figure 3: Ghana's Distribution of GDP by Economic Sector, 2013-2020 (percent)



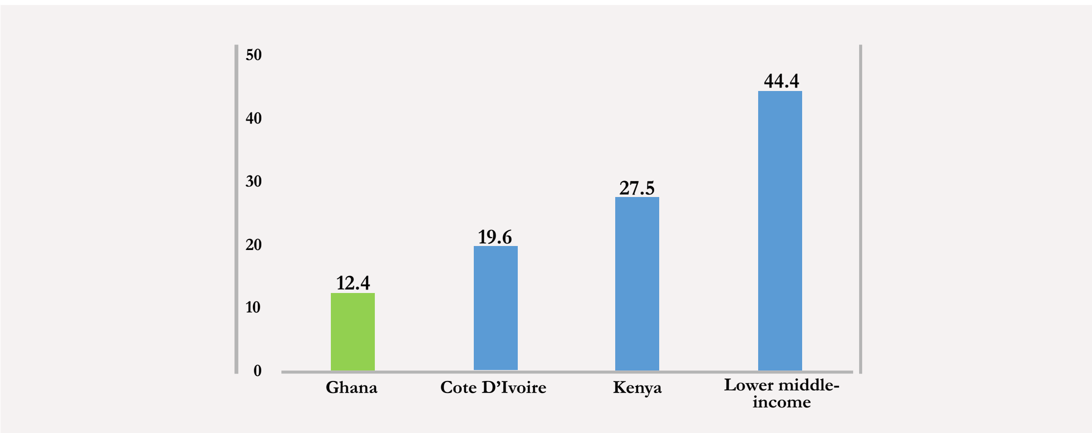
Source: GSS (2021)

The lackluster investment in the 'risky' agriculture value chain in Ghana has led to its stagnant and declining fortunes. Currently, government spends 4-5 percent of its total budget on agriculture, but the lion's share of that goes to the cocoa subsector. The prospects of agriculture as a tool for economic transformation are enormous. Empirical evidence suggests that Ghana like other African countries, cannot get rich by producing predominantly non-tradable goods and services. Instead, modern agriculture and agri-business, either for export or import substitution, offer opportunities for the country's prosperity (Diao et al., 2019). The establishment of DBG can help mobilize both private and public long-term affordable capital for the agriculture sector to lift millions of Ghanaians from poverty.

3.1.3. Low Credit to Private Sector

Closely related to high cost of credit and limited funding for risky sectors is the low and limited credit from commercial banks to the private sector. In 2019 for instance, while credit growth recorded a 15 percent increase of GH¢38.85 billion ($6.475 billion) in loans and advances, it only accounted for 31 percent of assets of the banks compared to 38 percent of their assets going to investments, mostly government securities. Hence in 2019, Ghana's credit to the private sector was only 12 percent of GDP. Credit to the private sector in Ghana has been consistently lower compared to its peers (see Figure 3). Even so, the services, commerce, and finance sectors receive the highest share of bank credit compared to the productive sectors including manufacturing and agriculture. DBG can rightly correct this market challenge to place a dedicated focus on increasing assess to credit to private enterprises and businesses.

Figure 4: Comparison of Private Sector Credit to GDP, 2019 (in percent)



Source: Adapted from World Bank Report (2020)

3.1.4. Lack of funding for Infrastructure Development

Infrastructure (social and economic) are essential drivers of economic growth. Chengete and Alagidede (2017) indicate that infrastructure has a positive and significant growth effect in sub-Saharan Africa (SSA). The AfDB in its 2010 infrastructure report concluded that Ghana lags behind its middle - income peers on infrastructure development. More so, the increase in population demands investments in infrastructure. According to the 2021 provisional population and housing census, Ghana's population sits at 30.8 million compared to 24.7 million in 2010. Annual infrastructure deficit is estimated at $1.5 billion but Ghana's capital expenditure as a percentage of total expenditure has been dwindling steadily (Owusu-Manu et al, 2019). Badu et al. (2012) identify three major challenges as being central to the success or failure of innovative financing of infrastructure delivery in Ghana, namely, investment capacity challenges, implementation challenges, and revenue-mobilization challenges. The establishment of DBG can make available fresh capital for both public and private investments for the growth of infrastructure development.

3.2. Development Bank Ghana (DBG)

The GoG has established the DBG as a development finance institution to help accelerate the structural transformation of the economy and job creation. The DBG is expected to increase the availability of long-term financing for firms in industry, agriculture, and other high-growth potential sectors, using a private sector model. In addition to providing long-term financing, the DBG would be expected to de-risk banks' lending to certain borrowers and market segments (e.g., SMEs).

In preparation to getting started, a task force was set up in 2018 to advise government on key operational and design features of the bank. Based on task force's recommendations and subsequent consultations with key stakeholders, the Minister of Finance has endorsed the following seven key features of the DBG:

(a) Non-deposit taking financial institution operating as a wholesale/second-tier lender and complementing existing financial institutions.

(b) Responsive to development priorities of the GoG and financially sustainable.

(c) Mixed public-private ownership.

(d) Established as a limited liability company and regulated and supervised by BoG under a framework appropriate for a development bank.

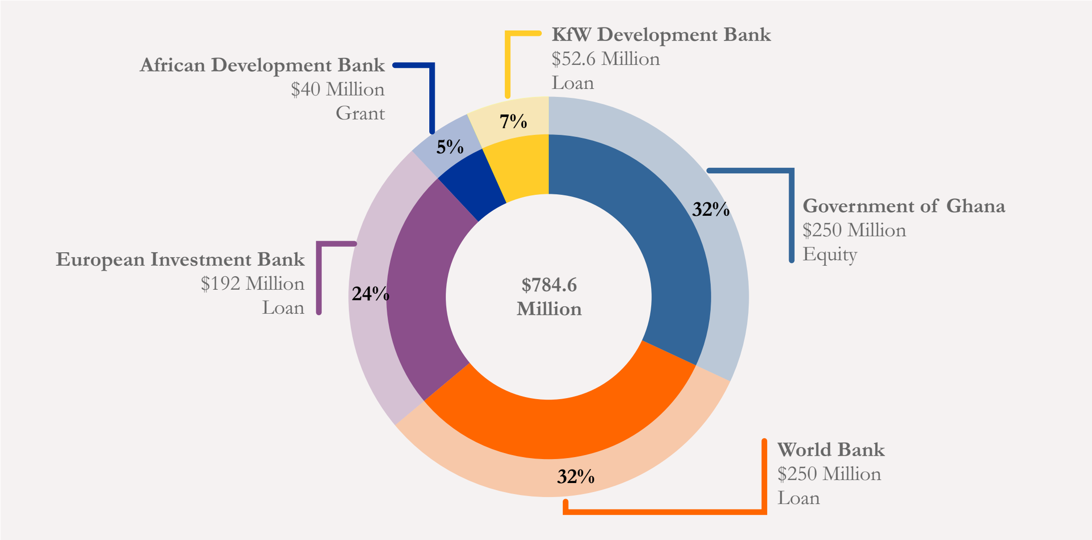
(e) Stronger corporate governance (independent board and professional management), including to shield the institution from political interference.

(f) Offering a range of complementary products and services to financial intermediaries (long-term financing, credit guarantees, platforms to facilitate working capital financing, capacity building and possibly equity).

(g) Adequate and diversified funding sources (equity and long-term debt from development finance institutions, GoG, issuance of bonds, etc).

PwC India was also contracted with funding from the UK Department for International Development (DFID) to conduct a feasibility study for the establishment of DBG. The feasibility study concluded that, at the prevailing market conditions, there is a role for a new DFI in Ghana that "caters to the long-term financing needs of the sectors that would be of significance for economic transformation and job creation for the Ghanaian economy" (see Figure 6).

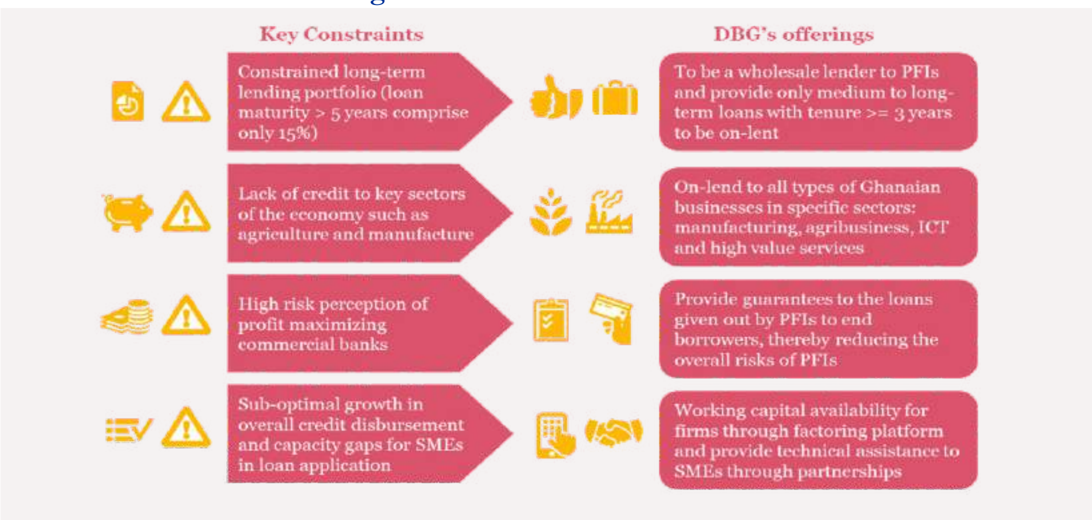
Figure 5: Capitalization of DBG[7]



Source: Authors

Unlike other public banks including the Agriculture Development Bank (ADB) and the National Investment Bank (NIB) which were established through Acts of Parliament, DBG is a limited liability company incorporated under the Companies Act, 2019 (Act 992). The GoG is currently the sole shareholder. Nongovernment shareholders, possibly including international DFIs, are expected to join later. 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.

Figure 6: Business Case for DBG



Source: PwC Study on the Establishment of the Development Bank Ghana - unpublished (2019) and World Bank (2020)

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[7] The capitalization funds from EIB (€170 million) and KfW (€46.6 million) have been converted to US dollars using an exchange rate of €1=$1.129 (www.eur.curency.today - January 6, 2022)

Section 4

Prospects of DBG's Contribution to the Growth of Ghana's Economy

This section attempts to answer the question: how can the DBG contribute to Ghana's economic growth? We make a case that for the DBG to fully address existing market failures in the Ghanaian economy, the bank must be structurally positioned to provide long-term credit, syndicated loans, technical assistance, and financing for Micro, Small, and Medium-sized Enterprises (MSMEs) to accelerate economic growth in Ghana.

4.1. Long-term Credit

Access to long-term competitive credit to businesses and entrepreneurs is almost non-existent in Ghana. Other forms of debt finance including leasing, guarantee based payments, and public and private equity instruments are rarely available to the private sector. These factors are driving businesses to forgo long-gestation investments. Extending the maturity structure of finance is often considered to be at the core of sustainable financial development. Empirical studies suggest that long-term finance contributes to faster growth, greater welfare, shared prosperity, and enduring stability (Demirgüç-Kunt and Maksimovic, 1998; de la Torre, Ize, and Schmukler, 2012; IFC, 2015). In addition, entrepreneurs can benefit from long-term financing to overcome entry costs including those requiring long-term immobilization of capital such as investment in projects with delayed returns (Léon, 2019).

Although long-term finance places enormous risks on the providers because they must bear the fluctuations in the probability of default, for the DBG to remain relevant to the Ghanaian economy, it must have an operational focus utilizing creative long-term financing instruments to support entrepreneurial innovations and the underserved sectors of the Ghanaian economy which remain unattractive to commercial banks.

4.2. Syndicated Loans

The balance sheet of some existing banks in Ghana and the unavailability of government guarantees do not allow commercial banks to partake in syndications for large corporate and infrastructure project financing. Large infrastructure project finance is widely recognized as a tool for economic investment and development (IFC, 1999). The Ghanaian project finance market has been slow but continues to record new projects. Recent projects have mainly concentrated in the power, maritime, and rail sectors (ICLG, 2021). The DBG can serve as a focal point of credit guarantees for commercial banks to demonstrate their capability to participate in financing large-scale projects. This will ensure that public-private partnerships for infrastructure development are diversified across the Ghanaian economy.

On corporate financing, the Ghana Cocoa Board (Cocobod) for instance raises syndicated loans to purchase cocoa beans annually. Cocobod raised $1.3 billion and $1.5 billion in 2020/2021 and 2021/2022 crop season respectively to purchase cocoa beans. The DBG can complement both private and public entities to provide such club-deals at affordable credit cost to ensure that strategic institutions such as Cocobod are not debt burdened to prevent them from positively contributing to the growth of the Ghanaian economy.

While it is unclear whether syndicated loans will be part of the portfolio of DBG as seen in figure 6, DBG must consider filling this important gap in the Ghanaian economy to create a new and sustainable paradigm for corporate and infrastructure development financing in the country.

4.3. Technical Assistance & Knowledge Hub

Technical assistance accompanying disbursement of capital for businesses and projects can help reduce risk of default. DBG can provide technical assistance to its borrowers in the form of management consulting to help strengthen their capacity. Research has shown that DFI clients who receive consultancy services in addition to financing achieve 60% higher revenue growth, employment growth, and survival rates than non-DFI clients (Badu et al., 2012).

At the 2018 edition of International Economic Forum on Africa organized by OECD, President Akufo-Addo of Ghana called for the establishment of a platform on infrastructure and skills development to accelerate projects cycles and address key bottlenecks such as the limited capacity within governments to develop bankable projects. In addition to technical assistance to ensure the effective utilization of funds, DBG can serve as a knowledge hub by managing and consolidating the interactions between government agencies, regulators, entrepreneurs and businesses, vocational training institutions, research centers, and academia with the goal of building the capacity of the varied development players to produce bankable innovative entrepreneurial initiatives and infrastructure to drive socio-economic development.

From DBG's offerings as seen in figure 6, DBG may not offer technical assistance and other business development services directly to borrowers. Instead, it may establish partnerships with other entities specialized in the provision of such services. Whatever form this may take, DBG must elevate technical assistance and knowledge sharing as a key component of its operations to boost the capacity of the firms to benefit from the bank's offerings.

4.4. Micro, Small, and Medium-sized Enterprises (MSMEs) Financing

MSMEs carry a huge potential to transform the economic development of Ghana but have been plagued with many challenges including financing. According to the 2015 Ghana Statistical Service (GSS) survey on businesses, 98 percent of the 640,000 businesses in Ghana are MSMEs. Further to that, one in ten business establishments are formal with the remaining nine being informal. About 74 percent of these MSMEs are estimated to be partially or fully credit-constrained (World Bank, 2019). The MSME financing gap in Ghana is also estimated at about $6.1 billion, equivalent to 13 percent of GDP in 2017 (IFC, 2017).

DBG could play a crucial role in addressing failures in the credit markets for key client segments such as MSMEs that bear the potential to accelerate Ghana's structural transformation. The World Bank projects that DBG will provide financial services to about 10,000 enterprises, including 2,000 women-led MSMEs and therefore contribute to economic growth and diversification. Provision of long-term financing at competitive rates and risk-sharing arrangements to MSMEs can encourage private financial institutions to explore these key segments by financing their activities that would otherwise remain unfunded.

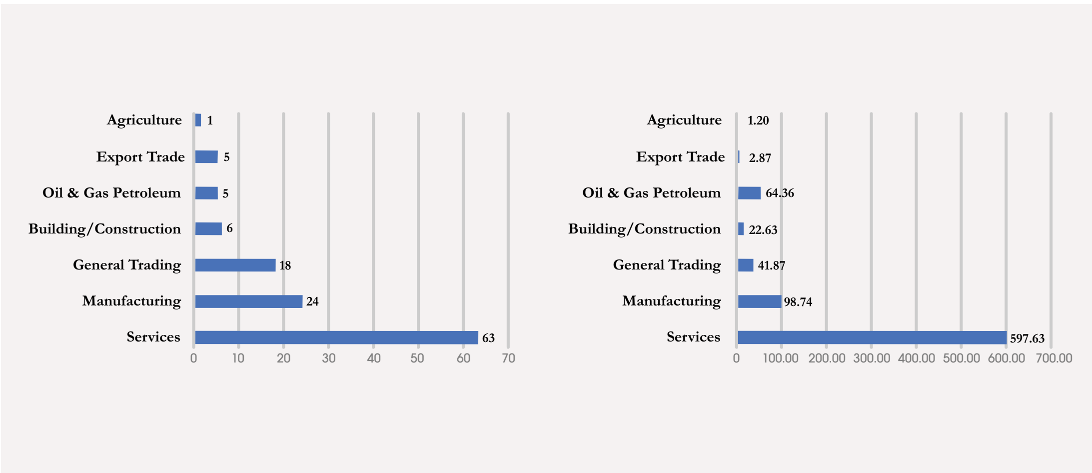
Section 5
Priority Sectors

Almost all sectors of the Ghanaian economy require maximum investments driven by both public and private entities to accelerate the country's economic transformation and sustainable development. As a development-oriented bank, DBG must be well positioned to respond to investment gaps across the multiple sectors of the economy to create an equitable development trajectory for the country. Nonetheless, the DBG must prioritize some sectors above others, at least in its initial years of operation to create a level playing field for all economic sectors given that some sectors are grossly underserved.

5.1. Agriculture

As noted in Section 3.1.2, agriculture remains a risky and an unattractive sector for commercial banks and investors. Investments into the sector have generally been low despite policy efforts by the government to scale up agricultural productivity. For instance, out of the 122 foreign direct investment (FDI) projects recorded in Ghana from January to June 2021 worth about $874 million, only 1 was an investment in the agriculture sector at a cost of $1.2 million, less than 1 percent of the total investments recorded in the period (see Figure 7). Ghana's agricultural budget share has remained well below 10 percent in the last decade (IFPRI Ghana, 2019). Yet, the potential of the sector to transform Ghana's economy to ensure future growth in employments and per capita incomes is well studied and documented.

Figure 7: Sector breakdown of projects registered by number and FDI value (US$ M): January - June 2021



Source: Adapted from GIPC, (2021)

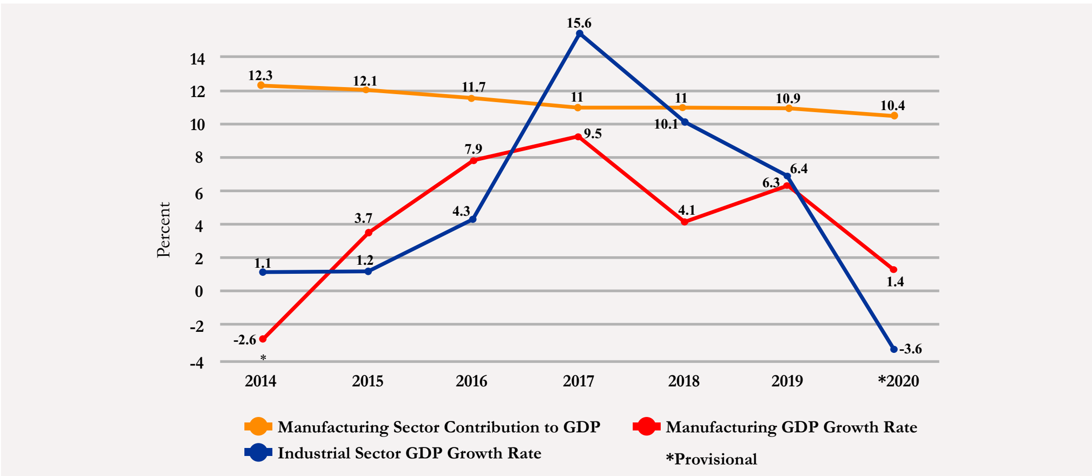
Ghana remains a net importer of both raw and processed basic foods including rice, poultry, sugar, and vegetable oils. In 2019, Ghana's food import bill was approximately $2.3 billion, representing 17.4 percent of the country's total merchandise imports estimated at $13.4 billion. Ghana's 2019 food import bill exceeded the country's 2019 cocoa exports worth $1.61 billion despite being the 2nd largest exporter of cocoa in the world (Statistica, 2020; World Bank 2017; World Bank 2020).

The size of Ghana's food import bill creates opportunities for investments in import-substitution in key import commodities. Ghana is endowed with vast areas of high agricultural production potential which can support a wide range of agricultural produce. With the changing demographics of Ghana's population resulting in high levels of youth unemployment, creating employment across the agriculture and agribusiness value-chains can be an important strategy to achieve sustainable growth. DBG must prioritize the sector by committing to innovative medium and long-term financial instruments that can leverage both private and public resources to drive investments, employment, and economic growth across the value chain of climate-smart agriculture and agribusiness.

5.2. Manufacturing

A vibrant manufacturing base leads to greater innovation, productivity, increased exports, middle-class jobs, and sustainable economic development while spurring the growth of other sectors through linkage. Ghana has long recognized the importance of the nexus between industrial manufacturing and economic growth. Across the vision of successive governments, industrialization has been highly regarded as a vehicle for the transformation of the Ghanaian economy (Owusu-Mante, 2021). Nonetheless, the manufacturing sector remains stagnant and unproductive as recorded by its declining contribution to GDP and fluctuating growth rates since 2014 (see Figure 9).

Figure 8: Ghana's Manufacturing Growth Rate and Contribution to GDP (2014-2020)



Source: Owusu-Mante (2021) and GSS (2021)
*Provisional Estimates

Manufacturing entities are hampered by major challenges including access to capital and finance, high interest rates, excessive taxes, levies, and fees, poor state of automation and technology, and competition from imported goods (Nti 2015). A 2016 small and medium sized manufacturing survey conducted by the International Trade Center (ITC) and Association of Ghana Industries (AGI) found that although Ghanaian firms have a good understanding of the financial system, access to finance and high interest rates were major roadblocks to their competitive disposition, hindering the ability of the manufacturing sector to meaningfully contribute to economic growth. The survey also found that lack of a reliable electricity supply is a major constraint to firm growth, hitting medium-sized firms twice as hard as small firms. This is affirmed by Owusu-Mante (2021) who found that lack of access to reliable and affordable electricity are major contributing factors to the slow performance of the manufacturing sector as electricity tariffs for industrial and commercial consumers remain relatively high when compared to tariffs in other developing countries.

By 2030, business-to-business spending in manufacturing in Africa is projected to reach $666.3 billion, $201.28 billion more than in 2015 (Signé, 2018). Through the African Continental Free Trade Agreement (AfCFTA), industries in Ghana can absorb increasing raw materials from the region, scale up manufacturing and trade in processed and light manufactured products. For Ghana to be positioned to tap into these opportunities and to pursue a robust agenda for industrialization as envisaged by the government's one district one factory initiative, DBG must make access to finance available for coordinated investments in the manufacturing sector across micro, small, medium, and large industrial firms.

5.3. Climate & Green Financing

The just ended COP 26 meeting of global leaders failed to deliver on driving countries to accelerate the phase-out of coal to keep the Paris 1.5-degree ambition alive. The world remains off track to beat back the climate crises. Many developing countries including Ghana remain vulnerable and most exposed to the adverse effects of climate change. Ghana is already experiencing climate induced stresses including temperature changes, change in rainfall patterns, disruption of agricultural systems, sea level rise, and flooding of coastal areas.

Financial resources and sound investments are needed to address climate change, to both reduce emissions, promote adaptation to the impacts that are already occurring, and to build resilience. As such, Ghana as a country must mainstream climate finance that support climate action while furthering development objectives across all sectors of the economy. In addition, the country must elevate green financing and investments across all economic sectors to ensure that investments activities are aligned with environmentally friendly business practices and the conservation of natural resources.

There is currently no policy framework guiding climate financing in Ghana. DBG can step in to fill this important gap by leveraging global public and private access to green and climate finance to be channeled into the Ghanaian economy. DBG can also mobilize commercial banks and other financial institutions such as pension funds for this cause in Ghana. Studies confirm that benefits from green and climate investments dramatically outweigh any upfront costs. As such, DBG must prioritize climate finance as part of its portfolio to encourage both private and public investments that seek to conserve the environment, build resilient cities, towns, and health systems, and reduce our carbon footprints in the transportation and energy sectors.

Section 6
Governance Risk and Risk Mitigation

DBs emerged and expanded between the 1950s and 1960s to support socio-economic development. Nonetheless, about 250 development banks were privatized between 1987 and 2003, while many others were restructured or liquidated (de Olloqui 2013). In addition to economic liberalization and reforms in the 1980s and 1990s that led to a significant reduction in their numbers, other factors that have contributed to the restructuring or liquidation of DBs include multiple and competing mandates, goals and objectives, poor corporate governance, weak and poorly organized government owners, politicized boards and management, low levels of transparency, deficient monitoring and evaluation practices, and inadequate supervision and prudential guidelines. In Ghana, state-owned Bank of Housing and Construction (BHC), for instance, was liquidated in 2000 due to bad corporate governance resulting in persistent losses and the inability of the bank to satisfy the minimum capital requirement under the then banking laws (Daily Graphic, 2000; Alesu-Dordzi 2019).

To avoid the same fate, it is imperative for government to avoid unnecessary interference in credit decisions and operations of the bank despite being the only shareholder of DBG currently. Given that DBG has been established devoid of an Act of Parliament, clearly defined rights and responsibilities of the different stakeholders including the GoG, board of directors, management, and staff must be stated in the bank's operating and governance constitution. The Bank's constitution must be made available to the public.

Historically, Ghana has been plagued with the culture of institutional appointments utilized as a form of political patronage. Changes in governments have frequently resulted in changes in management and boards of governmental institutions. If DBG is to make an impact, the culture of politically motivated appointments and erratic changes in boards associated with regime changes must cease with the DBG. Appointments to the board, management, and staff must be transparent, independent, and based only on professional experiences and competency. Board members should be appointed for a fixed term of not less than three years as a standard practice globally. It must be noted that the GoG has endorsed the need for a stronger DBG corporate governance based on the recommendations by the task force set up to determine the key design features of the bank. This must not remain on paper but must be prioritized as a key operating standard of DBG.

To function effectively, development banks require a stable macro-economic environment that supports the growth of private investments. The focus of government as the major shareholder of DBG must be to strengthen the implementation of existing policies that support private sector innovation, growth, and entrepreneurship. In addition, novel policy instruments capable of accelerating private investments into the economy must be put in place to ensure the effective utilization of DBG funds.

Section 7
Conclusion & Recommendations

The Government of Ghana (GoG) has announced the successful set-up of the Development Bank Ghana (DBG). DBG has received its operational license from the Bank of Ghana (BoG) and is expected to begin operations by year end 2021. DBG has the mandate to finance credit as a wholesale bank and provide guarantee instruments to encourage universal banks to lend to strategic sectors of the Ghanaian economy.

The objective of this report has been to examine the need for the establishment of a development finance institution in Ghana, the gap it is likely to fill within Ghana's socio-economic development, and its potential impact to spur Ghana's economic growth. This report argues that high cost of credit, limited credit to the private sector, lack of funding for infrastructure development, and unavailability of lending and financing for risky but strategic sectors of the economy such as agriculture necessitate the need for DBG as a game changer for development financing in Ghana. In addition, the DBG can exert maximum influence on the Ghanaian economy through the provision of medium to long-term wholesale credits and guarantees, syndicated loans, equity investments, technical assistance, serving as a knowledge hub, and elevating financing for MSMEs in Ghana. Based on these findings, three potential recommendations are made to ensure DBG's operations are fully aligned to spurring Ghana's socio-economic development.

Priorities

First, while recognizing that almost all sectors of the Ghanaian economy require maximum public and private investments, DBG must, however, prioritize investments in agriculture, manufacturing, and green and climate financing given that these sectors bear the potential to further spur the growth of other sectors through linkage, but are grossly financially underserved. DBG must stand ready to absorb investments risks inherent with these sectors, particularly for MSMEs and entrepreneurs. Consequently, an empirical data of MSMEs would be important to enable a well-informed, sustainable, and equitable credit decision.

Innovative Financing Instruments

Second, in addition to medium to long-term credits, DBG must diversify and be innovative with 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 to spur private sector innovation and growth.

Review of Mandate & Operations

Third, periodic review of the mandate of DBG is paramount to ascertain its impact on the economy. In addition, clear, specific, and quantifiable targets must be set for each fiscal year to provide the basis for evaluating the performance of the bank. Linked to that, DBG's position in the financial industry is crucial to its success. The bank should play a complementary role other than a competitive role to commercial banks as set out in its mandate. DBG should neither be a conduit to transfer government subsidies nor a tool to subsidize government policies.

Non-Political Interference

Finally, the success of DBG will depend on the continuous political and government support irrespective of the political party in power. Successive governments must avoid unnecessary interference in credit decisions and operations of the bank. The culture of institutional appointments utilized as a form of political patronage must not be associated with the bank to create and preserve DBG's dignity as an apolitical institution. Appointments to the board, management, and staff must be transparent, independent, and based only on professional experiences and competency. A strong and sustainable corporate governance must be the hallmark of DBG.

Generally, the financial sustainability of DBs is paramount in achieving the objectives for its establishment. DBs are primarily established not to make profits or engage in deposit taking activities, but DBs must generate resources to accomplish their mandate. The establishment of a DB does not necessarily guarantee the desired economic growth. The BoG must be at the helm of affairs in exercising its regulatory and oversight responsibilities over DBG as enshrined in the Development Finance Institutions Act 2020, (Act 1032) to ensure the financial and operational sustainability and transparency of DBG.

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