GHANA’S DEVELOPMENT FINANCE INSTITUTIONS: REVIEW OF CURRENT STATUS AND PRINCIPLES FOR REFORM

OCTOBER 2016
### ACRONYMS

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<tr>
<th>Acronym</th>
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<tr>
<td>AfDB</td>
<td>African Development Bank</td>
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<td>ARB</td>
<td>Association of Rural Banks</td>
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<td>BAC</td>
<td>Business Advisory Centre</td>
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<td>BADEA</td>
<td>Arab Bank for Economic Development</td>
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<td>BoG</td>
<td>Bank of Ghana</td>
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<td>DFIs</td>
<td>Development Financial Institutions</td>
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<td>ECL</td>
<td>Eximguaranty Company (Ghana) Ltd.</td>
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<td>EDAIF</td>
<td>Export Trade, Agricultural and Industrial Development Fund</td>
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<td>EDIF</td>
<td>Export Development and Investment Fund</td>
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<td>EFCL</td>
<td>Export Finance Company Ltd</td>
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<td>FAO</td>
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<td>GEDAP</td>
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<td>GHAMFIN</td>
<td>Ghana Microfinance Institutions Network</td>
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<td>Ghana Infrastructure Investment Fund</td>
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<td>Government of Ghana</td>
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<td>Ghana Poverty Reduction Project</td>
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<td>Highly Indebted Poor Countries</td>
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<td>Ministry of Trade and Industry</td>
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<td>MSEs</td>
<td>Micro and Small Enterprises</td>
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<td>National Disaster Management Organisation</td>
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<td>National Micro Finance Centre</td>
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<td>NBFI</td>
<td>Non-bank Financial Institution</td>
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<td>NBSSI</td>
<td>National Board for Small-Scale Industries</td>
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<td>National Development Planning Commission</td>
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<td>Non-traditional Exports</td>
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<td>Organization of the Petroleum Exporting Countries</td>
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<td>OVCF</td>
<td>Outgrower and Value Chain Fund</td>
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<td>Participating Financial Institution</td>
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<td>Rural and Community Banks</td>
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<td>REP</td>
<td>Rural Enterprises Programme</td>
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<td>SIC</td>
<td>State Insurance Corporation</td>
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<td>Small and Medium Enterprises</td>
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<td>Small-Scale Enterprises</td>
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<td>SSNIT</td>
<td>Social Security and National Insurance Trust</td>
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<td>UNDP</td>
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Exchange Rate
The average exchange rate during 2015 was about GHS 3.8/USD 1.
Acknowledgment

This study was prepared by a team led by Andrej Popovic (Senior Financial Sector Specialist) and including William F. Steel (Consultant) and Michael Fuchs (Consultant).

Peer review comments were received from Gunhild Berg (Senior Financial Sector Specialist, World Bank) and Uzma Khalil (Senior Financial Sector Specialist, World Bank).

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EXECUTIVE SUMMARY

1. This study reviews the approach to development finance adopted by Ghana and takes stock of the current situation of development finance institutions (DFIs). The study then articulates a set of key principles relevant to Ghana reflecting international experience. The intention is to provide the basis for dialogue on new approaches to making Ghana’s policies and institutions more consistent with good practices in development finance. The study does not venture into detailed assessment of particular institutions due to the unavailability of required data for such an assessment. The paper primarily focuses on DFIs targeted toward the priority areas of micro, small and medium enterprises (MSMEs) and non-traditional exports, which are relevant for access to finance and the financial inclusion agenda. Particular attention is paid to their targeting, cost-effectiveness, market distortions, and governance.

2. A review of international experience with DFIs finds that cost-effectiveness tends to be greatest and market distortions lowest when development finance is provided on a wholesale basis through commercial financial institutions that bear the risk and are empowered to make loan decisions, based on well-defined and targeted eligibility criteria. Direct intervention by government in allocation and in setting interest rates tends to undermine sustainability, impact, and willingness of beneficiaries to repay funds that they perceive as politically motivated.

3. Ghana’s approach to development was state-led in the post-Independence period through the mid-1960s, and highly interventionist during the 1970s and early 1980s, after a brief period of stabilization. Controls were gradually removed in the late 1980s, and financial policies were liberalized. During the period 1985-2006, the government and the Bank of Ghana (BoG) established a number of institutions to promote and finance MSMEs and exports, especially in agricultural value chains. While the majority operate through private financial institutions, some of these institutions provide finance directly, increasing the cost and risks and reducing effectiveness.

4. Although some of these institutions managed or benefited from donor-supported government projects in the past, little such funding remains available, especially for MSMEs, resulting in low cost-effectiveness and sustainability for some DFIs. Several institutions have come to depend largely on funds from the Export Trade, Agricultural and Industrial Development Fund (EDAIF), which is funded through a levy on imports. However, an interest rate cap of 12.5 percent is imposed on funding provided by EDAIF, which is well below market rates and tends to result in rent-seeking, long delays while applications are vetted, and lack of interest by commercial financial institutions whose earnings are constrained by the interest rate cap.

5. With respect to export finance, overlapping mandates and weak performance of some institutions are being addressed through consolidation into a new Exim Bank (to replace EDAIF and two other institutions), though the chosen approach has substantial limitations. The process of establishing the Exim Bank provides an opportunity to address explicitly how best to make export and agricultural finance accessible and affordable with less distortionary practices and to consider how MSME support might be similarly consolidated into
a wholesale lending approach. However, establishing the Exim Bank as a statutory institution that is not licensed by the Bank of Ghana, but merely consolidates existing DFIs or schemes without substantial review and restructuring, may not contribute to addressing past development finance challenges.

6. The final section of the paper goes on to suggest a new approach to development finance, based on lessons learnt from international experience, which emphasizes a wholesale approach, focused technical mandate, and strong governance, including licensing and prudential supervision by the relevant financial regulator and independent and professional management. Crucial to this approach is: (a) strengthening the governance of DFIs by relying on public/private approach in DFI management – most likely in the first instance as impact investors by such parties as the international financial institutions and other donor-sponsored organizations and/or by appointing competitively selected independent directors and management; (b) narrowing the mandates of DFIs and focusing their role on supporting the growth of private sector financial intermediation. This is accomplished by moving DFIs out of retail credit provision and adopting a wholesale only model whereby they rely on the private sector’s capacity to assess credit risks; (c) adjusting the sectors targeted by DFIs and the instruments at their disposal so that they are best suited to catalyze funding provided by the private sector, withdrawing support in areas where the private sector has become conversant with lending risks, and focusing on those areas where DFI support can make a difference in increasing the private sector’s risk appetite, thereby extending the financing frontier.

7. Key principles for DFIs based on international experience are summarized in the table below. These are intended to provide the basis for dialogue on a strategic approach to ensuring that Ghana’s development finance institutions achieve their objectives within a financially sustainable framework. International experience suggests that this can be achieved by:

- **Encouraging DFIs to adopt international financial standards** for reporting and disclosure and improving governance, to allow these institutions to diversify their funding sources away from government to market and thereby put less strain on government fiscal resources particularly during challenging times;
- **Undertaking proper performance contracts enforcement and monitoring**, to ensure that government support to DFIs (whether in the form of equity injection or debt financing) is effectively utilized for the development mandate that the Government has assigned to these institutions;
- **Encouraging a wholesale business model**, to strengthen the governance and the lower operating costs of DFIs and also help leverage private sector financing for priority sector such as MSMEs, exports, agriculture and other segments important for the government’s policy agenda.

8. Making the transition from current DFI practices in Ghana to conforming with the principles identified in the table will take time and require strong commitment. In moving the agenda forward, strengthening DFI financial transparency and accountability would be the first priority. In this context priority should be given to implementing two principles. Firstly, requiring all government development finance agencies and programs to produce and make public audited annual financial statements the authorities will facilitate a much more informed
and qualified dialogue about the current situation of DFIs and the effectiveness with which they fulfill their mandates, as well as their financial sustainability. Secondly, the authorities would be advised to move towards regulation and supervision of all DFIs by the central bank, thereby requiring similar financial performance of DFIs as of other banks. By developing and implementing a new regulatory and supervisory approach to DFIs the authorities will support the process of assessing the effectiveness with which the DFIs fulfill their mandates and their financial sustainability. In preparing the introduction of the new regulatory and supervisory framework, and so as to inform the process of transition, the authorities would be advised to assess the distance between the current situation of the DFIs and the standards imposed by the new framework as well as those measures that would need to be adopted were by the DFIs were they to observe the new standards.

**Principles for Development Finance Policies and Institutions**

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<th>Objective</th>
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| **Governance** | • Involve the private sector in DFI management. This can take the form of impact investments by international financial institutions and other donor-sponsored organizations  
• Appoint competitively-selected independent, professionally-qualified directors and management |
| **Disclosure, evaluation and supervision for transparency and accountability** | • Require and make public audited annual financial statements of all government development finance agencies and programs  
• Develop and implement a results-oriented approach to monitoring and evaluation (M&E) essential to ensuring that results are measured and communicated  
• DFIs to be regulated and supervised by the central bank (as other banks)  
• Evaluate members of DFI Board and management annually according to observance of pre-assigned key performance criteria |
| **Targeting** | • Move DFIs out of direct provision of retail credit to avoid risk-exposure and inevitable fiscal burdens associated with accumulation of non-performing assets  
• Adopt wholesale-only DFI model, whereby reliance is placed on the credit risk assessment and management capacities of qualified financial institutions  
• Focus on those areas where DFI support can make a difference in terms of increasing the private sector’s risk appetite  
• Adjust the instruments used by DFIs so as to best catalyze and complement funding provided by the private sector, and avoid substituting such funding  
• Withdraw support in areas where the private sector has become conversant with lending risks |
| **Market-based approach** | • Remove interest rate ceilings, as they discourage lending by private |
| financing by avoiding interventions that interfere in market pricing and defray DFI capitalization | financial intermediaries while they encourage non-transparency, as greater reliance is placed on earnings from fees and charges  
- Discontinue interest rate subsidies, which tend to distort market signals, are difficult to target effectively, and encourage non-repayment due to their government-sponsorship  
- Provide funding on market-conforming terms so as to allow DFIs to preserve and build their capital base, thereby enabling them to reach scale and have impact |

<table>
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<th><strong>Institutional efficiency</strong></th>
<th><strong>Minimize overlapping mandates and duplication for greater cost-effectiveness</strong></th>
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| Review mandates of existing DFIs and schemes so as to ensure they are consistent with financial sustainability  
Where appropriate, consolidate institutions/programs serving similar objectives or target groups  
Place reliance on performance management of DFIs to incentivize the Board and management and as the basis for their assessment |
I. Introduction

1. This study provides an introduction to the development finance landscape in Ghana, taking stock of public development finance institutions (DFIs) and schemes with a view to identify a new approach to development finance in Ghana whereby the activities of DFIs catalyze and complement those of private sector intermediaries. It is further intended to inform policy and institutional reforms, as well as to provide the background for possible further in-depth investigations. The focus is on two areas that have long been prioritized by Ghana’s governments for development: micro, small and medium enterprises (MSMEs; supported in particular by microfinance); and non-traditional exports (especially in agricultural value chains). The review includes the status of Government plans to combine several existing institutions into a new Exim bank, as well as new DFI initiatives. The review is based on interviews conducted with these institutions in April-May, 2016, and limited data provided by them, as well as on secondary sources. This study begins with a brief review of the rationale for and experience with interventions to promote development finance and of Ghana’s policies and experience since Independence, leading to a summary of key issues for investigation (Chapter II). Chapter III reviews the status of current institutions and programs in Ghana, while Chapter IV examines recent developments involving consolidation of some existing institutions and establishment of new ones. Based on international experience with regard to reforming development finance institutions Chapter V outlines a new approach to development finance that would seem worthy of consideration in providing direction to the restructuring efforts being considered in Ghana. Chapter VI presents key findings and principles for development finance, which are also summarized in the table at the end of the Executive Summary.

II. Background

Review of Development Finance Policies and Experience in Ghana

2. Ghana initially took a state-led approach to development and development finance at Independence in 1957, into the mid-1960s. Following the overthrow of President Nkrumah’s government in 1966, there was a brief period of liberalization that created more space for private investment and financial institutions. In the 1970s, however, the new military government reverted to direct intervention and controls on the financial system in the 1970s. The introduction of economic reforms in the mid-1980s led to increasing financial sector liberalization in the 1990s, with more emphasis on demand-driven approaches and development finance institutions and lines of credit serving specific targets. This section reviews these four broad approaches as context for the review of the current status in Chapter III.

Direct government investment and control: Independence – 1960s

3. After Independence in 1957, the government prepared a Seven-Year Development Plan (1963/64-1969/70) that provided a comprehensive socialist framework for the already
extensive state-led and -controlled approach to economic management and development.¹ Public corporations dominated all sectors of the economy. Ghana Commercial Bank was formed in 1957 out of the former Bank of the Gold Coast, which had been created to serve Ghanaian traders, farmers, and businesses that lacked access to the dominant expatriate banks (such as Standard Chartered and Barclays).² The National Investment Bank (NIB) was established in 1963 to handle the rapidly rising number of public investments in industry, and the Agricultural Development Bank (ADB) in 1965.

4. Rising development spending and borrowing for both infrastructure and state industries led to inflationary pressures, balance-of-payments deficits, and growing external and internal debt. Restrictions on foreign trade, foreign exchange and the financial system were introduced in the early 1960s in an effort to control the growing imbalances.³ By the mid-1960s, the system broke down, in part due to corruption in import licensing and investment decisions, with rapidly diminishing foreign exchange reserves, unsustainable foreign debts, and increasing shortages of goods. Economic crisis, compounded by falling export earnings, together with the consequences of growing political repression, led to a military coup in 1966.

Stabilization and liberalization: Late 1960s

5. The subsequent military-civilian regime attempted to stabilize the economy through expenditure cuts, debt rescheduling, exchange rate devaluation, and gradual import liberalization – although the import licensing system was retained.⁴ The banking system was dominated by the state-owned Ghana Commercial Bank.⁵ During this period, promotion of small Ghanaian-owned enterprises was prioritized. In 1971, the civilian government directed commercial banks to raise interest rates on deposits to at least 7.5 percent in an effort to raise savings, and raised the ceiling on loans from 10 to 11 percent – a restriction which was subsequently removed for all sectors except agriculture.⁶ However, with export revenues failing to rise (except for a temporary increase in cocoa) and aggregate demand not adequately constrained, a further devaluation of 80 percent became necessary in 1971 in order to sustain the liberalization process.

Intervention and controls on private finance (1970s – mid-1980s)

6. Early in 1972, a military coup used the unpopular devaluation as a justification, and ‘revalued the exchange rate, wiping out two-thirds of the devaluation, repudiated some of

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¹ Birmingham, Neustadt and Omaboe, eds, 1966, *A Study of Contemporary Ghana: Vol. I: The Economy of Ghana*, Chapter 17. The Plan emphasized employment and investment to meet the demands of a growing labor force, through a mixed economy, with the state taking the lead on investment so that ‘by the end of the transition period the state will be controlling on behalf of the community the dominant share of the economy’ (Ghana Planning Commission, *Seven-Year Plan for National Reconstruction and Development 1963/64 to 1969/70*, Accra: Government Printer, 1964, p. 3).
³ J. C. Leith, 1974, *Foreign Trade Regimes and Economic Development*, Chapter II. The ‘move to establish credit regulations was clearly part of the evolution of the Bank of Ghana into a full-fledged central bank’ (p. 16).
⁵ The government began gradual divestment of shares, but still owns 51 percent, together with the Social Security and National Insurance Trust (SSNIT), as of 2016.
the suppliers’-credit debt, unilaterally rescheduled much of the remainder, and reinstated strict import licensing.7 Interest rate controls were reintroduced, with a maximum lending rate of 10 percent per annum.8 Credit quotas were introduced, requiring banks to lend 20 percent of their portfolios to agriculture.

7 The state-owned Merchant Bank was established in 1972 and the Bank for Housing and Construction in 1973 (liquidated in 2000). In 1976, the Bank of Ghana (BoG) issued regulations permitted community-owned Rural and Community Banks (RCBs) to be established as local unit banks with relatively low minimum capital.9

8 Repressive financial policies and controls adversely affected resource mobilization and financial depth in Ghana. By 1985, ‘Ghana had the lowest ratio of M2/GDP (13.5 per cent) in the world, second only to [then] Zaire [i.e. today Democratic Republic of the Congo]. Between 1977 and 1984…Ghana changed its position from one of the more deeply financialized countries of Africa to one of the least financialized.’10 The public sector absorbed 86 percent of domestic credit during this period. One consequence was that Ghanaian MSMEs, indeed most of the population, had access only to informal financial services, at best.11 Despite ‘credit allocation policies put in place at the beginning of the 1970s to direct credit to priority economic sectors…including small indigenous businesses, there has clearly been a growing disparity in both the volume and market share of lending to small and large businesses.’12

Liberalization, lines of credit: late 1980s – present

9 In response to severe economic decline and shortages in the late 1970s and early 1980s, the government embarked on an Economic Recovery Program in 1983 and sought support from the Bretton Woods institutions. Besides gradual liberalization of the exchange rate starting in 1986, reforms during 1987-8 included introduction of Treasury Bills, decontrol of interest rates on lending and deposits, and abolishment of sectoral credit allocation requirements (except for agriculture, which was removed in 1989).13 During 1988-93, under the World Bank-

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7 Ibid., p. 141.
9 Nissanke and Aryeetey, 1998, Financial Integration and Development: Liberalization and Reform in Sub-Saharan Africa. Their mandate to focus on agricultural initially led to large non-performing loan portfolios, but after 23 distressed Rural Banks were closed in 2001, they helped to lead increased outreach and financial inclusion through microfinance programs in the 2000s, with government and donor support.
10 Ibid., p. 103.
13 The World Bank noted that in 1987, despite increased deposits and funds available, ‘although demand for loans by the private sector was high, the credit ceilings set by the Bank of Ghana constrained banks from lending’ (World Bank, 1989, Ghana: Structural Adjustment for Growth, Washington DC: Report No. 7515.GH, p.10). But even after the removal of sectoral credit ceilings, a policy continued of ‘setting credit ceilings for each commercial bank…[which] tends to discourage competition and the mobilization of deposits,’ and a survey of private businesses found that ‘the problem of getting credit was identified as the major constraint to new investment by 90 percent of
supported Financial Sector Adjustment Projects, banking laws were amended to strengthen and streamline regulation and supervision of financial institutions and the Financial Institutions (Non-Banking) Institutions (NBFI) Act was passed, opening the door for Savings and Loan Companies (enabling Ghanaian investors to do limited banking with less capital than required of commercial banks), finance houses, and other NBFIs to fill market niches suitable for smaller depositors and borrowers and other types of businesses than those typically served by commercial banks. Direct controls over the financial system were replaced by a more market-based approach, relying on indirect instruments to regulate money supply and bring down inflation.\footnote{Quartey and Afful-Mensah, 2014, ‘Financial and Monetary Policies in Ghana: A Review of Recent Trends. \textit{Review of Development Finance}, 4, 115-125.}

\textbf{10.} Liberalization addressed the financial repression that had resulted from controls on the financial system, but recovery in financial depth came slowly, in part due to accelerating inflation and negative real interest rates in the late 1980s. Although the controls had failed to achieve the intended development objectives, removal of restrictions aggravated the difficulty of certain priority sectors in accessing finance. Following removal of credit quotas in 1989, the agricultural share of commercial banks’ loan portfolios fell from 31 percent in 1983 to 13 percent in 1998.\footnote{IMF Staff Country Reports, Jan 2000, paras. 188 and 192.} This reflected the generally poor performance of agricultural lending. The World Bank noted ‘the need to make improvements in the system of rural finance,’ leading to the multi-donor Rural Financial Services Project (RFSP) to strengthen the rural banking system and microfinance.\footnote{World Bank, 1991, \textit{Ghana: Progress on Adjustment}, op. cit., p. 14.}

\textbf{11.} In the liberalized environment, government efforts to channel more finance to priority sectors (especially exports and micro, small and medium-scale enterprises [MSMEs]) shifted toward establishment of new institutions. The National Board for Small-Scale Industries (NBSSI) was established in 1985; and the Export Finance Company (EFCL) and Eximguaranty Company (ECL) in 1989 and 1994, respectively. The mandate of the Export Development and Investment Fund (EDIF), established in 2000, included support for MSMEs and agricultural value chains.\footnote{The agricultural mandate was strengthened, and industrial development added in 2011 and 2013, under the renamed Export Trade, Agricultural and Industrial Development Fund (EDAIF).} The Social Investment Fund (SIF), established in 1998 to manage projects for community development, added funding for microfinance in 2003 and small-scale enterprises in 2008. The ARB Apex Bank was established in 2002 under RFSP as a ‘mini central bank’ for Rural and Community Banks (RCBs), which own it. It has served to manage various lines of credit in World Bank, IFAD and other projects for on-lending through the RCBs.\footnote{The ARB Apex Bank has essentially ceased seeking external lines of credit, and is not reviewed further.} These institutions are the focus of the review in Chapter III of the current status of development finance in Ghana.

**Key Issues**

\textbf{12.} A key motivation for the Government to intervene in credit markets is the low financial depth in Ghana, as in most low-income countries in Sub-Saharan Africa (SSA), in
particular the lack of private credit for term investment." The approach of the Ghanaian authorities has been to intervene by setting limits to the interest rates charged by banks and/or by providing subsidies to directly reduce the cost of credit. Unfortunately, these interventions do not address the underlying causes of the banks’ unwillingness to expand their lending. These relate to structural issues, such as weaknesses in the legal and regulatory environment, in property and collateral registration, and in the credit information environment. Only once these issues are addressed will banks perceive their rights as creditors are strengthened and will feel comfortable reducing the high margins on their lending.

13. Clearly such structural changes take time to implement, and the question arises as to how the Government can best intervene in the interim. Due to persistently high interest rates (in real as well as nominal terms) the Government has traditionally intervened to lower interest rates. Historically, this has included interest rate ceilings combined with sectoral allocation requirements – which have failed to address the underlying problems. More recently, the Government has set up special institutions to provide loans at rates fixed below the prevailing market, in particular the Export Trade, Agricultural and Investment Fund (EDAIF) and the Microfinance and Small Loans Centre (MASLOC).

14. ‘Affordable finance’ is a central issue because many programs are designed to offset the exceptionally high interest rates that persist in Ghana. Ghana’s commercial interest rates are high by African as well as international standards, real interest costs on the order of 15 to 50 percent for large and small businesses, respectively, at current rates of inflation. While this situation may justify efforts to provide greater access to affordable finance for productive investment, government expenditures and borrowing for this purpose tend to exacerbate the underlying problems of public deficits and crowding out the private sector. Inflationary pressure from government deficit spending has led the BoG to raise its policy rate from 15 percent in 2013 to 26 percent in 2015-16, putting upward pressure on the entire interest rate structure, and current Treasury Bill rates on the order of 23 percent are more attractive than lending to private businesses.

15. Thus, while the high cost of borrowing is of concern, remedies such as ceilings on interest rates or interest rate subsidies are unlikely to be effective. Interest rate ceilings discourage lending by financial intermediaries, as they curtail their earnings. This is likely to negatively impact access to credit, particularly of those borrowers perceived as more risky, such as MSMEs. Interest rate ceilings also encourage financial intermediaries to compensate for lower interest income from alternative sources of earnings, such as through raising fees and charges,

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defeating the purpose of the ceilings and rendering lending terms less transparent. Providing subsidies with the purpose of reducing interest rates raises questions about whether such subsidies can be effectively ‘targeted’, as well as the affordability of such subsidies, given the fiscal imbalance that itself is among the causes of the high interest environment.

16. **With these lessons from earlier Ghanaian experience in mind** Chapter III reviews the performance of the current major government development finance institutions, after introducing the rationale and organization of each institution, its funding, and development finance products. Annex 1 provides a tabular summary of the main organizational features of each institution, and Annex 2 presents the performance data that they have made available.

### III. Review of Current Institutions and Programs

**MSMEs and Microfinance**

*National Board for Small-Scale Industries*

17. The National Board for Small-Scale Industries (NBSSI) was initiated in 1985 as the principal arm of government to coordinate and implement programs to support micro, and small-scale enterprises (MSEs), which are considered to make an important ‘contribution to the country’s economic and social development with respect to production, income distribution and employment.’ Its functions (and departments) include: Policy, Planning, Monitoring and Evaluation; Investment and Credit; Entrepreneurship Development; and Women’s Enterprise Development. It has 160 Business Advisory Centres (BACs) in most of Ghana’s 216 Districts, which facilitate services to MSEs in their areas.

18. NBSSI itself is funded through the government budget for the Ministry of Trade and Industry (MoTI). BACs are by and large able to cover their costs, as their facilities and two of their staff members are provided by the local District Assembly, while two staff are funded through NBSSI (i.e., MoTI). District Assemblies are willing to provide support because they regard MSMEs as an important source of local employment and revenues (through licensing and other fees). However, the BACs lack budget for training, credit, and other activities, so mainly serve to help implement other government- and donor-funded projects, in addition to providing counseling to local MSEs. The establishment and activities of BACs have been supported by the Rural Enterprises Programme (REP; a series of three GoG projects under MoTI, funded in large part by the International Fund for Agricultural Development [IFAD]).

19. The government began using microcredit as an instrument of poverty alleviation programs initially under the Programme of Action to Mitigate the Social Costs of Adjustment (PAMSCAD), with seed funds of 15,000 Cedis in 1987. However, this and several other microcredit programs subsequently managed by NBSSI never managed to achieve significant scale or acceptable loan recovery rates (in most cases below 70 percent). The only credit funds it currently has available are GHS 1 million from a GHS 3 million grant from EDAIF (2014-16), which it is obligated to lend at 12.5 percent (well below the rate of inflation). The very

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23 http://www.nbssi.org/AboutUs.aspx
low levels of recovery on funds disbursed suggests that recipients of these microcredits regard such low cost funds as grants rather than loans.\(^{24}\)

20. **With respect to financial markets, NBSSI’s BACs play more of a facilitating role by assisting MSMEs with the skills and business planning needed to access finance.** Subsidies are provided mainly through basic training (in both productive skills and management) with low or no cost-sharing. NBSSI continues to manage small amounts of credit, which it provides through PFIs without direct intervention in the loan decision. However, since it currently depends on EDAIF for funds and therefore has to offer them at EDAIF’s the below-market rate of 12.5 percent, it is not clear what value NBSSI adds in channeling EDAIF funds to PFIs, which do the retail lending. It would likely be more cost-effective by focusing on its role in facilitating small entrepreneurs to obtain loans from PFIs, with or without matching grants from programs such as REP. NBSSI has developed tools and skills to guide entrepreneurs on whether it makes sense to borrow and to assist them in putting together credible applications.

21. **NBSSI is a statutory body that falls under MoTI and the Board members are appointed by the President.** It is not a revenue-generating institution, but is reliant on funding provided by the national government (which funds NBSSI and part of the BAC staff costs) and Metropolitan, Municipal and District Assemblies (which provide office space and part of the BAC staff costs). Overall, while the structure with NBSSI and the BACs provides outreach to the MSME sector, the limited funding made available through this channel and the ceiling imposed on interest rates have resulted in a framework which is quite ineffective in reaching scale. The level of loan recoveries is so low that capital is rapidly depleted, and due to the interest rate cap PFIs have little incentive to utilize the credit facilities managed by NBSSI.

**Social Investment Fund (SIF)**

22. **The Social Investment Fund (SIF) was set up in 1998 as a private company limited by guarantee to manage government and donor funds intended for community development and other social projects, starting with the Ghana Poverty Reduction Project (GPRP; 1998-2004).**\(^{25}\)

23. **Programs include community project financing (mainly infrastructure); capacity building; and microfinance capitalization (revolving credit for income-generating activities).** SIF’s current interest rate of about 28 percent is market-based (BoG policy rate plus 2.5 percent).\(^{26}\) Most MFIs add a mark-up of about 10 percent for on-lending to groups, which is at the lower end of the 3 to 4 percent per month (flat rate) typical of microfinance programs of RCBs and NGOs.

24. **SIF is funded from the projects it manages and on its ability to earn revenues from its lending.** The microfinance program began in 2003, with GHS 4.4 million (starting from USD

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\(^{24}\) The recovery rate on funds disbursed in 2014 and 2015 is 56% and 70%, respectively.

\(^{25}\) Funding initially came from the African Development Bank (AfDB) and the United Nations Development Programme (UNDP). Currently, funding of USD 19 million for 2013-16 comes from the Arab Bank for Economic Development (BADEA) and the OPEC Fund for International Development (OFID). The micro-credit loans are managed by the ARB Apex Bank, the small-scale enterprise fund by the National Investment Bank.

\(^{26}\) However, a proposal is being considered for SIF to provide wholesale funds at 5% below the Treasury Bill rate (which is currently below the policy rate), to give them a higher spread in compensation for the high credit risk.
1.15 million of funding) in cumulative disbursements to 14,000 beneficiaries over three years, with an average recovery rate of only 68 percent.\textsuperscript{27} It received additional funds for microcredit of USD 250,000 in 2008-9, but none since then. SIF also received USD 1.05 million in 2008-9 for medium-term loans to small-scale enterprises. As of the end of 2015, the amounts remaining in the microcredit and small-scale enterprises fund were GHS 0.2 and 0.5 million, respectively. Although SIF is quite streamlined in terms of staff and budget, without an increase in these funds or in projects to be managed, SIF’s continued activities are in question.

25. SIF reports screening banks and NBFI\textsuperscript{s} that wish to participate in terms of their strategic objectives, financial performance, audited statements, and other criteria. Over the past five years by operating on a wholesale basis through PFIs and letting them make the loan decision as well as bear the risk, SIF has achieved relatively good recovery performance of 93-98 percent for the two funds. In 2015, its administrative budget was only 5 percent of the total amount lent – although the available funds supported only 3 microcredit loans and 8 loans for small-scale enterprises. This contrasts to a cumulative total since 2003 of over 50 MFIs that have received over GHS 10 million for 20,000 microfinance beneficiaries and 24 PFIs that have received a total of GHS 6 million for medium-term loans to over 4,000 SSE beneficiaries.

26. As a corporate body with a Board that includes a range of private as well as public sector representatives, SIF has been reasonably independent and charges of corruption (which have been levied against some government programs). As a semi-autonomous company specialized in managing government and donor funds for community development, SIF appears to have performed relatively well in making funding available to groups and activities that are targeted as important for rural development and poverty reduction and that otherwise would lack access to finance. By providing funds according to specified criteria through PFIs that utilize microfinance methodologies, without intervening in their loan decisions, SIF seems to have achieved a relatively high repayment rate (compared to other government credit programs) and been reasonably cost-effective in achieving development finance objectives.

27. SIF’s effectiveness in development finance could be enhanced with further enhancement in business model focusing on sustainability. It enables MSMEs to obtain financing at market-based rates comparable to those of commercial banks, offsetting to some extent the extremely high rates they would otherwise face from many MFIs without distorting the market with highly subsidized interest rates. However, the modest interest rates charged by SIF mean that the fund steadily decapitalizes over time, as real interest rates charged on its lending are negative. SIF also loses capital due to losses arising from loan losses. Altogether, SIF depends on periodic injections of funds to maintain its operations. Perhaps indicative of this in-built dependency, donors have been reluctant to recapitalize SIF and SIF’s lending activities have dwindled as a result.

Micro and Small Loans Centre (MASLOC)

28. The Ghana government expanded its use of microcredit for poverty alleviation as part of implementing budget relief under Ghana’s accession to Highly Indebted Poor Countries (HIPC) status (2002). This led in 2006 to creation of the Micro and Small Loans Centre (MASLOC) under the Office of the President. Although originally intended to wholesale funds through MFIs and other financial institutions, due to their reluctance to accept risk and a restricted spread, MASLOC has had to build up an extensive office network in 90 Districts in all ten regions, in order to process, monitor and collect its loans.

29. Administrative costs come out of the annual budget for the Office of the President, with a total allocation (including loan funds) of about GHS 5 to 10 million in recent years.

30. MASLOC can provide Group Loans (of GHS100-500 per member); Small or Individual Loans (of GHS 1,000-10,000); and Wholesale Loans for on-lending. The retail interest rate on MASLOC loans has always been set at a subsidized level well below the prevailing rates for MFIs, currently fixed at 24 percent (flat); it was 20 percent prior to 2014. 

31. With only a 6-10 percent spread allowed to retail institutions, there has been little demand for wholesale funds from MASLOC. RCBs and other microfinance institutions (MFIs) have generally refused to bear any of the risk on MASLOC loans, or even to engage actively in recovery, since MASLOC commissions for administering funds have generally been very low.

32. MASLOC services have been persistently perceived as government handout by both the general public and its beneficiaries, who have responded with persistently low rates of repayment. This impression has been exacerbated by the government’s reluctance to institutionalize MASLOC as a legal, semi-autonomous entity, instead retaining it in the Office of the President, who appoints its 10-member Board (intended to represent different disciplines). The public perception that it is government driven intervention model has been especially strong during election years, regardless of which party is in power, augmented by periodic allegations of abuse or fraud. Zero- or low-interest loans provided in response to promises for disaster relief, e.g., following a flood or market fire, albeit justified by the desirability of helping economically active people to quickly get back on their feet, have had especially poor recovery (as low as 6 percent), although this has recently improved to as much as 60 percent by engaging Microfinance Companies (MFCs) to handle the recovery on a commission basis.

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28 To meet requirements for a portion of budget relief to be spent on poverty alleviation, various ministries were allocated funds to disburse as microcredit. Amid concerns about politicization and poor recovery of such funds, the government set up a National Micro Finance Centre (NAMFIC) to oversee them. However, under ministerial resistance to oversight, NAMFIC was replaced by MASLOC under the Office of the President, to manage new credit allocations.

29 Republic of Ghana. 2011. ‘Innovative Financial Instruments in Rural Enterprise Projects,’ Working Paper No. 3, Rural Enterprises Programme Design Report. The government initially wanted to fix the rate at 5%, but raised it to 20% after the Ghana Microfinance Institutions Network (GHAMFIN) intervened on behalf of private microfinance institutions, which normally charge around 3-4% per month.

30 Michael Boateng Sunyani, ‘MASLOC is Benefitting Only NPP Members,’ The Chronicle, 26 March, 2008; Graphic.com.gh, 17 February, 2015, ‘Rot at MASLOC; Operations director diverts Gh¢1m.’

31 The MFCs keep the funds for a year, so they can recycle recoveries of the 6-month loans—ostensibly at the MASLOC rate of 24%, but likely at higher rates.
33. On balance, MASLOC appears more likely to distort allocation of financial resources than to redress market failures in any systematic way, with more of a top-down, direct interventionist approach rather than operating through PFIs according to transparent criteria. Its loan processing, monitoring and enforcement operates in parallel to, rather than through MFIs, and its interest rate restrictions mean that the benefits are delivered selectively, and not cost-effectively. Its appears to serve mainly as a safety valve for responding to demands and pressures that arise both generally under Ghana’s high interest rate environment and in specific cases where relief measures may be warranted.

Export, Agricultural and Industrial Finance

Development Banks

34. The National Investment Bank (NIB) and the Agricultural Development Bank (ADB) were established in 1963 and 1965 as development banks to support state-led investments in industry and agriculture, respectively. Both have gone through substantial restructuring. In particular, the ADB was restructured in 1988 with substantial injection of capital from the government, although the agricultural share of its portfolio declined over time, despite availability of lines of credit for agriculture. Furthermore, its portfolio shifted more to large farmers, traders and processing units.

35. Both ADB and NIB became universal banks in 2004, when BoG removed distinctions between commercial, development and merchant banks. In the past, both managed credit lines from multilateral and bilateral agencies; more recently, they have obtained funds from EDIF/EDAIF and the Outgrower and Value Chain Fund (OVCF) for on-lending. Both remain government-owned, but without explicit subsidies. They now engage in a full range of commercial banking services and, while ADB and NIB have brought some of their original sectoral development focus and expertise into the banking system, rather than retain its ownership of these institutions the Government should consider their privatization.

Export Finance Company Ltd. (EFCL)

36. The Export Finance Company (EFCL) was incorporated in 1989 as a company limited by shares, promoted by the Bank of Ghana (BoG) with the intention of devolving responsibility for export development finance to a private company that could raise funds. The primary focus was on developing non-traditional exports (NTEs). In the 1990s, many of the NTE exporters were micro and small enterprises (MSEs) undertaking cross-border trade in West

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32 The second line of credit from the African Development Fund of about USD 21 million was intended to be disbursed over two years (1985-87), but actually took eleven (African Development Fund, 1997, ‘Project Completion Report: Second Line of Credit to the Agricultural Development Bank, Ghana,’ Abidjan: African Development Bank, Operations Country Department, West, Agricultural Division.) The agricultural share in ADB lending continued to fall after it became a universal bank in 2004. The government is currently trying to divest some of its 52 percent of shares (with 48 percent held by FIT on behalf of BoG) through an initial public offering, but other government agencies are the likely buyers (SSNIT and Ghana Cocoa Board).

33 The same applies to HFC Bank, originally established in 1990 as the Home Finance Company, Ltd., licensed as a NBFI in 1994, and now a subsidiary of Republic Bank Limited of Trinidad & Tobago.
Africa, or serving the Middle Eastern market. These exporters had difficulty accessing commercial bank financing because:

- Small businesses tend to be risky and often lack a track record and formal financial accounts;
- Trade arrangements were informal, without proper payment systems in place;
- Produce could spoil en route;
- Buyers could refuse or delay payment, with little recourse.

37. **EFCL’s shareholders are government institutions or companies in which government has substantial ownership**, with 58 percent of shares (representing conversion of BoG debt) held by the Financial Investment Trust (FIT) and 21 percent by the Export Promotion Council on behalf of the Ministry of Trade and Industry (MoTI).34

38. Initially, BoG floated export bills to obtain funds for EFCL to on-lend, but this resulted in mounting unrecoverable debt due to the mismatch between short-term borrowing and long-term lending and to problems with repayment from borrowers. When BoG stopped providing funds, EFCL was able to obtain some funds from EDIF and Merchant Bank. Since 2012, it has been unable to raise new funds or to adequately cover costs from revenues.

39. **EFCL’s financial products include working capital, pre- and post-shipment credit, and project finance.** It previously obtained EDIF funds at 2.5 percent and was restricted to giving PFIs a spread of only 10 percent spread for a retail interest rate of 12.5 percent, which tended to limit interest by commercial banks. Merchant Bank funds were subsequently obtained at 27-30 percent, to which EFCL added a 5 percent markup, making the cost relatively expensive for exporters.

40. While the risks involved in NTEs may have provided the justification for state intervention to make financing available through EFCL, the same risks adversely affected EFCL’s ability to recover loans. More recent examples of market risks that have affected EFCL’s portfolio include the collapse of Ghana’s pineapple export market due to the sudden switch of the European market to Costa Rica’s MD2 variety, and the failure of butternut squash to meet European Union specifications. By the late 2000s, EFCL’s ‘business position appears dismal and its operation almost dysfunctional with a large overhang of negative equity.’35

41. **EFCL is not licensed by BoG as a Finance Company, and its current capitalization of GHS610,000 falls well below the minimum capital requirement of GHS15 million.** The review of its status in 2009, and the eventual decision to merge it into the Exim Bank, was triggered in large part by its unsustainable financial situation, with growth in costs outstripping

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34 The original shareholders included SSNIT, State Insurance Corporation (SIC) Ghana Export Promotion Authority (GEPA), Ghana Re-Insurance, Vanguard Insurance, Enterprise Insurance, and Greater Africa Insurance (now under National Insurance Commission). In 1999 BoG converted debt to equity to take a 58% ownership share, which was then transferred to FIT, and MoTI likewise converted its debt to equity (21% ownership, held by the Export Promotion Council). The shares of the original eight institutions were diluted to a combined 21%.

revenues and no prospect for raising additional funds. Furthermore, its mandate to finance NTEs was also shared by subsequent institutions, ECL and EDAIF.

**Eximguaranty Company (Ghana) Ltd (ECL)**

42. The Eximguaranty Company (Ghana) Ltd (ECL) was promoted by BoG in 1994 to complement ECFL in financing NTEs, with a broader mandate to serve small and medium scale enterprises (SMEs) more generally, not exclusively exports. Like ECFL, ownership of ECL is predominantly by government institutions.

43. ECL’s current capitalization is GHS 8 million, which it leverages at an 8:1 ratio for guarantees (below the maximum 10:1 ratio permitted by BoG). It depends on periodic injection of funds, which has not happened in the last five years, so its capital value has been steadily eroded by inflation. In order to bolster its income ECL has gone outside its mandate to service some larger clients to generate more revenues, including (previously) to Cocobod to underwrite its credit to Licensed Buying Companies, and (recently) to construction companies.

44. Whereas in principle it is supposed to cover its operating costs from revenues on its business, in practice its capital and revenues have not kept up with costs in recent years, and 74 percent of the 2015 revenues came from investment income. Over 2012-15, its operating costs have risen by 34 percent while the value of credits guaranteed has fallen by 56 percent, so its operating costs have risen from 6 percent of annual guarantees to 18 percent. Default claims paid over 2011-15 have totaled 2.1 percent of new guarantees issued.

45. ECL provides guarantees to financial institutions for their loans to qualified borrowers – usually individual clients, also groups, and, in some cases, portfolio guarantees (e.g., for microenterprises, which would have difficulty qualifying on an individual basis). It can also provide guarantees for credit syndication, machinery leasing, advance payments, performance, materials supply, and tenders. According to its mandate it serves companies with less than USD 2 million in assets (excluding land) and owner-operated enterprises with less then USD 0.1 million in assets. The upper limit for a single guarantee is GHS 4.5 million (it is no longer able to get waivers for larger deals).

46. The high risk involved in SME ventures led to some heavy claims in the past (especially during 2013). The appraisal and monitoring process has since reportedly been improved.

47. While obtaining a loan guarantee or insurance (often ‘key man’ insurance on the life of the entrepreneur) can help in obtaining financing, especially by reducing the collateral requirements of other lenders or substituting for other forms of collateral, an important weakness has been that guarantee and insurance premiums must be paid annually. Often,

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36 It focuses on manufacturing for export or import substitution; it does not engage in service industries such as food, catering and hairdressing.
37 FIT holds 89% on behalf of BoG; 5% SSNIT; 3% National Investment Bank; with the exception that Ecobank holds about 3% of the shares previously held by The Trust Bank, which it took over in 2012. The Ministry of Finance holds preference shares and has a seat on the Board.
the borrower stops paying after the first year, since the cost is relatively high (3.5-4.5 percent of the amount guaranteed). Then, when the bank tries to call the guarantee or collect the insurance due to default, the policy is no longer in force. This has tended to erode the willingness of banks to accept such guarantees at face value. As with direct lending by Government-owned or -sponsored institutions, an important cause of the failure of ECL is that borrowers regard the services provided by ECL as being government-sponsored rather than commercial. The poor performance of such schemes can be attributed to the difficulties faced by government institutions in making commercial credit decisions, either because they lack the skills to evaluate credit risks which they are guaranteeing, or because their decisions are government driven. This speaks for guarantees being provided on a wholesale basis channeled through PFIs that bear the responsibility for taking credit decisions at the retail level. However, even where guarantees are provided on a wholesale basis only, it is considered best practice that PFIs do not inform the beneficiaries that their loans are guaranteed so as to avoid the moral hazard (potentially resulting in poor loan repayment) that has plagued ECL and similar guarantee schemes in other countries.

Export Development and Investment Fund (EDIF); Export Trade, Agricultural and Industrial Development Fund (EDAIF)

48. The Export Development and Investment Fund (EDIF) was set up in 2000 as a statutory corporation in part to address the funding shortcomings of EFCL. Its mandate was extended in 2011 to promoting development of agro-processing, as well as exports, and in 2013 to include industrial development and equity financing, and it was renamed as the Export Trade, Agricultural and Industrial Development Fund (EDAIF).

49. EDIF/EDAIF is funded via a levy of 0.5 percent on all non-oil imports. Since it is not licensed as a financial institution by BoG, it could not readily raise funds from sources such as international financial institutions which would require either a government guarantee or a strong balance sheet of a regulated financial institution.

50. It can provide grants (export development and promotion account) as well as a credit facility (GHS 276 million disbursed over 2002-2013). Grants have been used to support capacity-building, research, infrastructure, common use facilities, and agri-business-oriented activities; 11 percent of the GHS 136 million in export development and promotion funds disbursed over 2002-13 went to the President’s Special Initiatives, including textiles, oil palm, cassava starch and salt. It also funds some specific projects, e.g., for development of mangoes and butternut squash. In 2016 it launched an equity fund to help finance MSEs engaged in export trade, agro-processing and industry. The retail interest rate on EDAIF loans is capped at 12.5 percent, with the designated financial institution paying a 2.5 percent wholesale rate back to EDAIF.

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38 Some banks now require up-front payment of the entire guarantee amount for the loan; but this can substantially reduce the value of the loan, e.g., by costing 8% of a two-year loan. To help offset the high cost of the guarantee, the USAID FinGAP project subsidies half of the guarantee fee for its agricultural value chain clients.

39 It was also to receive 10% of divestiture receipts, but these have not materialized.

51. The limited spread of 10 percent (well below the average spread for commercial banks in Ghana on their own funds) has historically limited the interest of commercial banks in seeking EDAIF funds, and means that there likely is a bias toward using EDAIF funds for their best clients (who would have received loans anyway). Also, the processing time required to get approval for EDAIF loans forces some applicants to take their banks’ own funds at a much higher interest rate, in order to meet export orders on a timely basis. Nevertheless, EDAIF indicates that there is currently more than enough demand for their available credit facility.\(^{41}\) EDAIF is shifting some of its grant funds into interest-free credits for specific priority projects, in order to generate some recovery of the funds.\(^{42}\)

52. EDAIF’s scope has been broadened over time to include exports, agricultural value chains, industry and MSMEs. Thus it cannot be said that it provides its concessional funds in a narrowly targeted way, although it specifies eligibility criteria for each category of lending. In the past, EDIF has had some defaults on projects financed largely under directed lending approach given that it is government-owned and controlled. It has not, however, been tainted by charges of misuse of funds. EDAIF also provides funds to other public institutions for on-lending to target groups consistent with its mandate, including EFCL, ECL and NBSSI.

53. Since EDAIF lends primarily through about 20 universal banks, which bear the risk, its recovery from them is virtually 100 percent. Nevertheless, the banks often face recovery problems from their clients, resulting in rescheduling of loan repayments—often at a higher, market rate, once the bank has repaid EDAIF.

54. As ECFL and ECL depend on EDAIF for injections of funds, they are separate administrative entities implementing part of EDAIF’s mandate. The GoG recognized issues of overlapping mandates and weak financial performance of EFCL, ECL and EDIF in the late 2000s, and undertook a feasibility study in 2009 for a potential consolidation.\(^{43}\) This led to a Task Force to carry forward the recommendations of the study, ultimately resulting in an Act of Parliament in 2016 to establish an Exim Bank that is intended to replace all three institutions (discussed further in the next chapter).

**Outgrower and Value Chain Fund (OVCF)**

55. The Outgrower and Value Chain Fund (OVCF) was established by GoG in 2011. Its objective is to redress the lack of medium- and long-term finance (3 years or more) available to smallholder farmer groups in selected agricultural value chains (e.g., oil palm, rubber, mangoes, cocoa, pineapples, rice, maize citrus, livestock, and aquaculture), as well as to technical operators and small and medium-sized processing companies. OVCF is managed by a professional consulting firm that was competitively selected. Oversight comes through a Technical Compliance Committee, which approves loan requests, with the Ministry of Food and Agriculture.

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\(^{41}\) Since EDAIF is funded through a tax on imports and provides subsidized credit to exporters, it could be considered as de facto compensation for an overvalued currency.

\(^{42}\) It gives UT Bank a 5% annual commission on the outstanding balance for managing such funds.

serving as the Executing Agency. All loans approved are subject to KfW’s Non Objection before
disbursement by BoG as the custodian of the Fund to PFIs

56. **OVCF was initially funded by €11 million from German Development Cooperation (KfW),** which was replenished with €24 million in 2015.44

57. **OVCF refines loans made by qualified financial institutions, which to date have
included NIB, ADB, The Royal Bank, and three Rural Banks.** Retail rates are based on the
BoG policy rate (which has ranged from 12.5 to 19 percent in recent years), minus a concession to
offset risk, ranging from 2.5 to 4.5 percent depending on the recipient and type of financial
institution (with the biggest concession going to smallholder farmers and to Rural Banks and
NBFIs). Retail rates have ranged from 15.5 to 23.0 percent, with terms ranging from 5 to 22 years
(the latter including 8 years grace period).

58. **Information on the performance of OVCF’s lending is not yet available, although
there is reason to be relatively optimistic due to the Fund’s governance structure and credit
approval process** that involves oversight from KfW, a party removed from the Government with
a track record and capacity for assessing credit risks in emerging markets.

IV. **Recent Developments**

Exim Bank

59. **Parliament passed the Ghana Export-Import Bank Act, 2015 on March 2, 2016,**
establishing the Exim Bank as a ‘quasi-governmental’ corporate institution, replacing
EDAIF; the expectation is that it will absorb the EFCL and ECL.45 This originated from
recommendation 59 of the Financial Sector Strategic Plan (FINSSP) for 2004-2008 (Ghana,
2003):

> “the mandates of Eximguaranty Company and Export Finance Company should
be reviewed with a view to merging them into a single Eximguaranty and
Finance Corporation.”

60. **The establishment of Exim Bank appears to draw on the conclusions of the 2009
study in support of FINSSP46 addressing the overlapping mandates of EFCL and ECL, as
well as EDIF, and the ‘confused mandate’ resulting from the expectation that these corporations
would pursue a public purpose while taking risks that commercial banks would not. A
Presidential Task Force then investigated how to implement the feasibility study’s

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44 The figures each include €1.0 million Financial Contribution for Fund management, studies, etc. The first phase
funds have been fully committed to six schemes, and about 78 percent disbursed. Second phase funds are expected to
be fully committed by June 2017. The German Government has committed additional €21.6 million (including €2.0
million grant for management fee, studies, etc.) for a third phase, to be appraised in July, 2016.

45 ‘The Export Trade, Agricultural and Industrial Development Fund Act, 2013 (Act 872) is hereby repealed’ [para 38
(1)]. The Ghana Export-Import Bank Act does not, however, specifically mention these other agencies, and it remains
to be seen as to whether they will be liquidated with their functions (and portfolios) taken over, made into
subsidiaries, or other arrangements.

46 Emos Consultancy Ltd, 2009, ‘Consultancy Services for Feasibility Study on Merger/Consolidation of
Eximguaranty Company Ltd (EXIM) and Export Finance Company Ltd (EFC): Final Report,’ MoFEP.
recommendation to merge EFCL and ECL, and in the process decided to include EDAIF in the restructuring process, another corporate body established by Parliament, whose mandate had expanded on that of EDIF and overlapped with EFCL and ECL. The decision to proceed with the Exim Bank was incorporated in the 2015 Budget. An estimated GHS 50 million will be needed to set it up and cover the first year of operation, with about 100 employees.47

61. While in principle, consolidation could at least address the cost-ineffectiveness and possible inconsistencies in targeting of having three institutions with overlapping mandates, establishment of a new DFI needs to incorporate a new approach to result in different outcomes. The decision to bring the functions of EFCL and ECL under Exim Bank as a statutory corporation can be taken as acknowledging that fulfilling their public mandate to promote exports, agriculture and MSMEs is not financially sustainable when combined with interest rate caps and unlikely to reach scale when highly dependent on government funding in the form of subsidies and/or periodic capital injections. Part of the concern underlying the feasibility study was the ‘dismal’ performance of EFCL (with negative equity), and the dependence of both institutions on budget support and periodic injection of funds (often from EDAIF).

62. Nonetheless Exim Bank will continue to be highly subsidy-dependent, as it will take over the funding source of EDAIF, a 0.5 percent levy on non-oil imports (being raised to 0.75 percent, of which 0.19 percent will go to fund the Ghana Export Promotion Agency [GEPA], which plays a complementary promotional function).

63. Parliament debated whether the Exim Bank should come under Bank of Ghana (BoG) licensing, and decided against it, which is a major drawback. Arguments for licensing included facilitating being able to raise funds on financial markets and maintaining prudential discipline. The arguments against, which prevailed, included the desire to maintain a government institution pursuing a public mandate without being subject to prudential ratios and portfolio quality requirements that are set for commercial banks. By setting up Exim Bank, the authorities have achieved some rationalization in the number of development agencies supporting MSMEs and non-traditional exports. Nonetheless, it would appear that Exim Bank will continue to function in the traditional mold of development banking in Ghana, although this approach has made only limited impact on the sector’s financing difficulties over several decades.

64. Consistent with the experience of its forebears, the Board of Exim Bank will be dominated by Government appointees. Article 4 of the Bill states that ‘the Bank is independent in the performance of its functions...[and] is accountable to the Minister [of Finance] on the achievement of its object.’ Nevertheless, apart from one position on the Board filled by a representative of the major private sector associations on a rotating basis, the President appoints the Chairperson, Chief Executive Officer, and two private sector persons, in addition to the four members of the Board representing MoF, MoTI, BoG, and GEPA. Hence it cannot be said to be autonomous.

Ghana Infrastructure Investment Fund (GIIF)

65. **The Ghana Infrastructure Investment Fund (GIIF), another public corporate body established by a 2014 Act of Parliament and in the process of becoming operational during 2016,** is also development finance agency, but with a somewhat different approach to operational sustainability and to governance than that of Exim Bank. It is expected to invest only in infrastructure projects that can pay for themselves and generate dividends to their investors. Its Board consists of the Chairperson, CEO, and seven persons entirely from the private sector; while it is the Advisory Council that includes the Minister of Finance, Governor of BoG, Director-General of the National Development Planning Commission (NDPC), and a representative of the Office of the President, plus three private sector members.

66. **GIIF is also independent of the annual government budget process, in that it is to be funded by 2.5 percent of Value Added Tax (VAT), plus 25 percent of the annual budget funding amount from oil and gas revenues. It is also expected eventually to earn dividends on its investments. To set it up, USD 250 million of the US$1 billion Eurobond issued in 2014 has been set aside for GIIF.**

Savannah Accelerated Development Authority (SADA) Development Bank

67. **A very recent idea put forward by the Savannah Accelerated Development Authority (SADA) is to establish a wholesale development bank with an exclusive focus on the SADA region.** SADA was established by an Act of Parliament (Act 805) in 2010 and became operational in 2012, with a goal to facilitate economic development of the Northern Savannah Ecological Zone. Given the limited funding from government, SADA proposed to establish a wholesale development bank, licensed and supervised by Bank of Ghana, aimed at facilitating long-term funding for regional development. In terms of governance, the proposal suggests minority government/public share of up to 20 percent and majority ownership by a mix of private and/or international financial institutions. This proposal is conceptually aligned with recommended good practices, but it requires further elaboration, and most importantly, a feasibility assessment of setting up a new bank exclusively focused on a specific region.

V. Moving towards a New Approach to Development Finance

68. **As described in Section II above, Ghana – like many countries in the post-colonial period – adopted the so-called public sector approach to development finance.** According to this approach, problems of access to finance were attributed to widespread market failures that could only be overcome by public sector intervention. Thus the government assumed hands-on involvement in mobilizing and allocating financial resources. In Ghana this stance has been maintained until today, with government intervention in the form of budget funding, interest rate caps and subsidies, including for the recently-established Exim Bank.

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69. International support for the public sector approach waned in the late 1980s, as it was recognized that the costs associated with addressing market failure through direct government intervention were likely to exceed those of the market failures themselves. According to the *laissez-faire* approach, which became popular at that time, instead of intervening directly to fill funding gaps, government efforts are better deployed in improving the functioning of the market by strengthening the legal, institutional and enforcement environment. The focus shifted – perhaps too radically – away from providing support to particular activities towards focusing on strengthening property rights, collateral registration and foreclosure processes, and improving credit bureaus to facilitate information exchange and thereby reduce transaction and screening costs.

70. More recently, in the early 2000s, more active government support to the deepening of financial systems again gained ground, particularly since the global financial crisis and subsequent economic downturn. The so-called *public/private approach* places emphasis on the catalytic role of government interventions in addressing market failures in well-tailored, targeted and non-traditional ways. In this view, while the authorities should promote the development of the legal and institutional infrastructure (as supported by the *laissez-faire* approach), specific targeted interventions to support market development may also be justified. The authorities should not seek to replace markets as was the case under the public sector approach. Rather, they should address financing gaps by correcting specific market failures.

71. The current development finance interventions being implemented in Ghana have many of the traits of the public sector approach in that they provide funding on terms that are less onerous than market terms. Importantly, this means that their impact is limited, as the various financing schemes are not financially sustainable, and, rather than supporting wider market development, they are absorbed by those privileged parties accessing finance at reduced cost. It therefore seems appropriate to further review the components of the public/private approach. Interventions under this approach are specifically designed to support market development on a financially sustainable basis.

**Defining Features of the Public/Private Approach**

72. While the public/private approach recognizes that government has a role to play, this role is not to replace the market but rather to support the private sector so that it becomes conversant with and adopts instruments tailored to filling the identified market gaps – i.e., to facilitate private sector participation in addressing market failures. Thus, the public/private approach leverages tailored, targeted and restricted interventions and emphasizes the role of innovative instrument design. The following are the distinguishing design features of the public/private approach.

73. *Ownership and funding structure:* Recognizing that 100 percent government ownership has invariably been associated with governance failures, DFIs under the

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49 Hitherto this approach has been more actively implemented in Latin America. The conceptual basis and examples of implementation can be found in De la Torre, et al. (2007): *Innovative Experiences in Access to Finance: Market Friendly Roles for the Visible Hand?*
public/private approach adopt a mixed public-private capital structure. Minority non-governmental ownership from so-called impact investors, such as international financial intermediaries (IFIs) and/or bilateral foreign government donor agencies, will significantly strengthen governance and facilitate transfer of expertise. To ensure a highly professional Board, it is important that Board members are selected according to transparent criteria that focus on ensuring a high level of professional capacity and technical expertise in those areas required of the DFI.

74. To ensure leverage and to enable the DFI to reach scale in the activities, this approach supports a diversified funding structure, with one-off government capitalization supported by investment by outside shareholders. The aim is to use internal funds to leverage financing from capital markets. While investment on the part of government and donors may allow DFIs to provide services at a small discount compared to commercial terms, the focus of this approach is primarily on providing funding that complements funds provided by private sector intermediaries (catalytic) and on terms that are similar to those offered by private sector intermediaries (market-conforming). For instance, the funding structure outlined above might allow DFIs to provide funding for a longer term than private financial intermediaries, thus providing liquidity relief to its clients while still lending on terms that conform with the market.

75. **Mandate and strategy:** Moving away from the focus on filling financing gaps and the assumption that the public sector is able to make good credit decisions, the private/public approach leverages the private sector’s capacity in funding, risk assessment etc. The discipline associated with private sector involvement on the Board supports DFIs in fulfilling their development mandates in a sustainable way. The role of DFIs under this approach is to focus on identifying and resolving specific market failures. DFIs are to address such market failures with instruments that encourage learning, adoption and supplementary funding by private intermediaries.

76. **Under this approach, the primary aim of DFIs is to ensure that their funding (“start capital”) is leveraged.** The aim is to ensure that scalability is reached, while also maintaining financial sustainability. This can only be achieved if: (a) the instruments and funding terms provided by DFIs are market-conforming, i.e. they are consistent with and encourage private sector financing on similar or parallel terms; and (b) the DFI devotes attention to remaining on the frontier of financial service provision – seeking to test market segments and/or instruments that the private sector has as yet been unwilling to adopt or is not conversant with.

77. **With the aim of encouraging private sector participation, financial viability and scalability under the public/private approach, it is found to be advisable to restrict the mandate of DFIs to performing the role of second-tier, wholesale intermediation.** Advantages associated with establishing DFIs as wholesale rather than retail intermediaries are that: (a) second-tier DFIs will be perceived as supporting retail-level institutions rather than competing with or looking to replace them; (b) second-tier DFIs will be more cost-effective by relying on private retail intermediaries as regards expertise in managing client relationships and the assessment of credit-risks.

78. **Instruments and clients:** Rather than providing directed or subsidized loans under the private/public approach, DFIs target specific market failures using tailored instruments.
Simultaneously they seek to encourage private sector participation so that they can adjust their focus to new markets and clients as soon as the private sector becomes conversant with and is willing to service those markets or segments currently being targeted. By providing longer-term finance that is otherwise unavailable in the market or by sharing the risk assumed by private financial intermediaries, the public/private approach encourages private sector intermediaries to engage in the provision of finance in areas where the private sector lacks capacity and/or which the private sector finds too risky. The challenge faced by the Ghanaian authorities is to move from a purely public sector approach to an approach that is focused on ensuring that DFIs leverage the involvement of the private sector. With this transition in mind Table 1 summarizes the core features of the public sector and public/private approaches as outlined above.

Table 1: Comparing Core Features of the Public/Private Approach with the Public Sector Approach

<table>
<thead>
<tr>
<th>Ownership &amp; Funding</th>
<th>Public Sector approach</th>
<th>Public/Private approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>o State ownership</td>
<td>o Mixed government/non-governmental ownership</td>
<td></td>
</tr>
<tr>
<td>o Board and management appointed by Government</td>
<td>o Board and management selected according to transparent, professional criteria</td>
<td></td>
</tr>
<tr>
<td>o Government funding that includes fiscal transfers/subsidies</td>
<td>o Initial capital funded by government/donors supplemented with wholesale market funding</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mandate &amp; Strategy</th>
<th>Public Sector approach</th>
<th>Public/Private approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>o Social policy mandate supplemented with counter-cyclical interventions</td>
<td>o Strategy tailored to addressing specific market failures/financing gaps</td>
<td></td>
</tr>
<tr>
<td>o Projects selected according to public sector’s assessment of needs</td>
<td>o Emphasis on market conformity so as to encourage learning, adoption and supplementary funding from the private sector</td>
<td></td>
</tr>
</tbody>
</table>
| o Projects characterized by high risk/low return activities/poor viability | o DFIs assessed on whether they achieve:
| | ✓ financial sustainability; |
| | ✓ meaningful scale; |
| | ✓ crowding-in of private sector funding |

<table>
<thead>
<tr>
<th>Instruments &amp; Clients</th>
<th>Public Sector approach</th>
<th>Public/Private approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>o Direct lending provided on the balance sheets of DFIs</td>
<td>o Second-tier lending relying on private sector to establish/maintain client relationships &amp; assess credit risks</td>
<td></td>
</tr>
<tr>
<td>o Targeting underserved client groups</td>
<td>o Focus on catalytic instrument design (providing financing otherwise unavailable on the market) and targeting financing gaps (excluded client groups)</td>
<td></td>
</tr>
<tr>
<td>o Subsidized credits &amp; guarantees</td>
<td>o Targeted client groups adjusted as private sector becomes conversant and takes them on</td>
<td></td>
</tr>
<tr>
<td></td>
<td>o Market-conform pricing – leveraging public/donor funded initial capital (with zero required return) to provide limited discount to market rates</td>
<td></td>
</tr>
</tbody>
</table>
79. Box 1 provides examples of successful deployments of the public/private approach: instruments deployed at the ‘risk-frontier’ that crowd-in private capital and leverage limited public fiscal resources and capacity.

Box 1: Examples of the Public/Private approach in practice

| An example of a public/private subsidy: | Subsidies deplete fiscal resources and can create (price) distortions and moral hazard\(^{50}\). A program called SIEBAN (Sistema de Estímulos a la Banca) provided by FIRA, a Mexican development agency, was designed to address these concerns in the following ways: (1) The subsidy was designed to last three years and decrease over time. The temporary nature of the subsidy was intended to mirror the falling cost of acquiring credit information about bank borrowers. Once borrowers have established credit histories, screening costs for financial institutions would be significantly reduced. The need for the subsidy would fall in line with the reduction of the distortion (information asymmetry) that the subsidy was designed to correct; (2) The moral hazard associated with SIEBAN was limited, because it only provided a small subsidy during the initial period, and private financial intermediaries still bore the costs associated with eventual default, leaving the incentive to manage credit risk with the private sector; and (3) Any enterprise receiving the subsidy was required to register with the credit bureau so as to ensure that the subsidy contributes to addressing the targeted market failure. |
| An example of public/private credit guarantees: | In developing countries credit guarantee systems suffer from constant threats to their sustainability due to high default levels and/or poor risk management. FOGAPE (Fondo de Garantía para Pequeños Empresarios), a Chilean state fund designed to provide partial credit guarantees on loans issued by commercial banks to small firms, is considered a success story in terms of fostering market activity while minimizing the problems that have characterized other guarantee schemes. FOGAPE works on a commercial basis with banks, where banks select loans and FOGAPE then check to see if they meet the partial credit guarantee’s eligibility criteria. Banks have maintained high screening and monitoring standards because (a) they share in the risks of default – FOGAPE credit guarantees only cover 70 to 80 percent of loans, and (b) FOGAPE tests the banks’ risk appetite by regularly auctioning guarantees among participating banks. As a result, default rates on loans guaranteed by FOGAPE have been relatively low. |
| An example of a public/private approach to structured finance: | In providing working capital to shrimp producers, while also addressing potential principle-agent problems, FIRA has adopted an innovative practice in structured finance. FIRA outsources the client-screening work to a large shrimp distributor, Ocean Garden. Ocean Garden has information advantages in undertaking the screening of producers, and a strong incentive to select producers who can fulfill their obligations. This arises because Ocean Garden also provides shrimp producers with guarantees to cover any initial credit losses. By adopting this approach, FIRA successfully includes the private sector as a risk-sharing partner, leveraging its expertise in managing risk exposure. |

\(^{50}\) Moral hazard refers to the case where one party (the borrower) tends to take more risks, because the borrower relies on another party (the DFI) to assume the risks.
What Makes DFIs Work or Fail? Implementation of the Public/Private Approach

80. The World Bank recently undertook a study of international experience with DFIs.51 A major challenge for DFIs is to find a balance between the State’s responsibility for actively exercising its ownership functions (such as the nomination and election of the Board) and refraining from imposing undue interference on the management of the DFI. Many of the problems commonly recognized to afflict DFIs can be associated with, if not attributed directly to, weaknesses in corporate governance. Identified international examples of such weaknesses include:

- Government officials acting in the capacity of shareholders directly intervening in day-to-day operational decisions;
- Government in all its forms (even without a formal role) directing DFIs’ lending (e.g., to whom to lend, on what terms to lend, and when to forgive indebtedness): i.e., “political intervention” or “political capture”;
- Executives acting almost autonomously (without clear reporting lines), pursuing unintended objectives (“mission creep”); or taking decisions contrary to commercial and/or financial management principles, thus eroding the institution’s “self-sustainability”;
- Board members lacking the necessary experience, skills and capacities to effectively and properly exercise their functions according to the institution’s objectives; and
- Lack of accurate and complete reporting (on financial and non-financial matters alike), giving rise to uninformed decision-making by those who rely on reporting, and thereby misleading shareholder, investors, legislatures, and society in general.

81. Based on these findings the following core principles as regards corporate governance of DFIs can be put forward:

82. Ownership and control: Although the majority of DFIs are government-owned, mixed public-private ownership provides a number of safeguards and has emerged as good practice. The advantage of mixed ownership is that it reduces the risk of governance failures because it provides protection to the DFI in the form of safeguards from political intervention in the DFI’s day-to-day operations while maintaining the DFI’s focus on public policy goals. In the case of investment by so-called ‘impact investors’, themselves ‘soft investors’ with broader socio-economic objectives and/or multilateral development institutions, DFIs in developing and

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emerging markets stand to benefit considerably from the experience and technical expertise that such investors have to offer, both as regards governance and management practices and in designing and implementing development programs.

83. **In addition to direct private ownership, “control arrangements” can be put in place as a way to ensure that private sector shareholders (equity investors or institutional lenders) exercise control on key management and governance issues.** These mechanisms provide assurance that the DFI is properly run, fulfils its performance, financial, and public policy objectives, maintains its sustainability, and is as far as possible insulated from political interference.

84. **Most state owned enterprises use some kind of “performance contract” between the ownership entity/Ministry and the DFI/Board.** This contract should be negotiated with the Board (ideally on an annual basis), and should include key performance indicators that allow performance to be clearly understood and evaluated. As regards implementation of performance contracts the involvement of non-governmental owners will encourage compliance with such performance contracting procedures.

85. **Board of directors and management:** The Board appointment process is one of the key factors to ensure that the DFI fulfils its objectives. A key challenge in Board composition is to ensure that the Board collectively has the mix of skills, experience and capacity needed to conduct the business of the DFI in an efficient and professional way.

86. **The most effective way to control potential weaknesses and prevent abuses is to put in place measures aimed at strengthening the governance arrangements around Board and Management,** including: (i) a formal, merit-based, transparent process for appointing independent directors to the Board, as well as performance-based assessment and salaries of DFI Management; (ii) a majority of the Board to be comprised of independent, highly qualified, professional and experienced directors who are competitively selected; (iii) encouraging minority shareholder representation and reputable international investors’ participation on the Board of the DFI; and (iv) competitive selection and appointment of key executives (including the CEO) by the Board with the participation, to the extent possible, of all shareholders.

87. **Mandate:** DFI mandates need to be tight enough so as to prevent ‘mission creep’ and flexible enough to give room to adjust the path of the DFI should its mission become less relevant. The latter is particularly important to the public/private approach to DFIs – making sure that DFIs preserve their “additionality” by continually seeking to push the frontier of the production possibilities of the financial system. An example of focused DFI mandate could be the provision of funds for on-lending to MSMEs on a wholesale basis. These funds would be on-lent only through financial intermediaries that comply with specific eligibility criteria (i.e. financial, prudential, governance) for on-lending to MSMEs. Such a mandate targets MSMEs while leveraging the credit assessment skills of private financial intermediaries, thereby focusing these intermediaries on building skills in assessing and managing credit provided to this underserved client group.

88. **Operational and financial sustainability:** Confining DFIs to second-tier (wholesale only) operations contributes to improved performance and leverages the expertise of private
sector PFIs in managing credit risk. This contributes both to more cost-effective utilization of scarce public funds and to reducing the risk that DFIs expand their activities into areas, such as managing credit risk, where they would in effect be duplicating rather than supplementing the capacity of private sector intermediaries.

89. Risk management is a critical component of the overall accountability framework, and ultimately an essential determinant of performance. It is also an important governance tool with a direct impact on sustainability. Risk management should be incorporated as an integral part of the accountability framework, whereby the performance of DFI is assessed according to a performance contract established between the shareholders and the Board.

90. A crucial link in the governance process is the accountability framework used in assessing the performance of the Board and management of DFIs to its shareholders. The Board and management should be evaluated according to a set of performance criteria, and be held accountable when ex-post evaluations indicate underperformance. Experience shows that most reforming state-owned banks use some kind of “performance contract” between the ownership entity/Ministry and the DFI/Board. This contract should be negotiated with the Board (ideally on an annual basis), and should include key performance indicators that allow performance to be clearly understood and evaluated.

91. Monitoring and evaluation: Developing and implementing a results-oriented approach to monitoring and evaluation (M&E) will help to ensure that results are measured and communicated. Understanding and defining the criteria of success at an early stage is crucial to being able to measure results. Moreover, being able to provide information on monitoring and assessment of results is a critical part of the feedback cycle. In the absence of any background information due diligence by the DFI’s Board and management becomes very difficult, and designing and taking corrective action to strengthen DFI efficiency and effectiveness becomes virtually impossible. It is essential that the shareholders and Board of DFIs pay particular attention to (i) defining the institution’s approach to M&E at the time of its inception, and (ii) setting up a rigorous results framework, specific data collection requirements, and requirements as to the frequency and disclosure of the outcomes of the evaluation analysis.

92. Disclosure and transparency: Disclosure and transparency are key aspects of governance involving: (i) efficient internal audit procedures and audit function monitored by the Board and the audit committee; (ii) an annual independent external audit based on international standards—i.e. the same high quality accounting and auditing standards as listed companies; and (iii) disclosure of financial and non-financial information according to high quality internationally-recognized standards.

93. Regulation and supervision: Independent and effective regulation and supervision of DFIs is a basic condition for the sound governance and for ensuring good performance and financial sustainability. It is critical that DFIs be well regulated and supervised, and this function is best performed by central banks. Regulatory and supervisory arrangements for DFIs should be very similar to standards as applied to commercial banks, but modified to take into consideration the business model of the specific DFI. In the case of second-tier DFIs, as recommended here, the risk exposure will be considerably lower than that of commercial banks and other DFIs that lend
directly: **on the asset side**, wholesale DFIs do not undertake any direct lending and only perform second-tier, wholesale functions; and **on the liability side**, risk exposures are considerably less than those of commercial banks, because wholesale DFIs do not solicit deposits from the public.
REFERENCES


_____________. Undated. ‘Consultancy Services to Assess the Immediate Impact of OPEC Fund for International Development (OFID II): Data Collection, Collation and Analysis Output Report. Accra: SIF.


## Annex 1: Summary of Development Finance Institutions and Schemes

<table>
<thead>
<tr>
<th>Institution</th>
<th>Established (operational)</th>
<th>Legal status, governance</th>
<th>Principal objective and target groups</th>
<th>Products</th>
<th>Capitalization or funds available</th>
<th>Comments</th>
</tr>
</thead>
</table>
| National Board for Small-Scale Industries (NBSSI)                | 1985                       | Act 434 of 1981 Governmental body under MoTI [absorbed Ghana Enterprises Development Commission in 1991 and Cottage Industries Division in 1994] Executive Director and 8 Board members appointed by the President | Promotion and development of MSEs through-out the country                                              | NBSSI activities contribute to:                                          | GHS 1 million (remaining of GHS 3 million EDAIF grant) | GHS 1 million (remaining of GHS 3 million EDAIF grant) | NBSSI activities contribute to: Enabling environment  
  - Enterprise culture  
  - Business development services  
  - MSE sector associations  
  - Access to credit | | | |
| Export Finance Company Ltd. (EFCL)                               | 1989                       | Companies Act (limited by shares):  
  - 58% FIT (for BoG)  
  - 21% Export Promotion Council (for MoTI)  
  - 21% shared by SSNIT, SIC, GEPA, Ghana Re-insurance, Vanguard Insurance, Enterprise Insurance, Ghana Union Insurance; NIC | Companies with fixed assets < $2 million; owner-operated enterprises with assets < $0.1 mill. through:  
  - Loans or other credit to exporters  
  - As finance house, issue and deal in commercial paper and raise loans  
  - Guarantees for export finance | Pre- and post-shipment credit  
  - Working capital  
  - Project finance  
  - Export advisory servies | GHS 610,000                        | | |
| Eximguaranty Company Ltd                                        | 1994                       | Companies Act (limited by shares):  
  - Assist banks and NBFIs to extend | Guarantees for credit to MSMEs | None | Income from past |
| **ECL** | • 89% FIT (for BoG)  
|         | • about 5% SSNIT  
|         | • about 3% NIB  
|         | • about 3% Ecobank  
|         | • MoF has preference shares, sits on Board  
|         | credit to borrowers lacking adequate collateral  
|         | • Guarantees for credit lines to Fis and contract awarding agencies  
|         | • Refinance facilities for PFI’s  
|         | • Working capital and insurance cover for local exporters  
|         | • Facilitate financing and marketing of agricultural products  
|         | • Manage trust funds  
|         | • Guarantee cover for pre- and post-shipment export credit  
|         | • Guarantee for local credit lines to MFIs  
|         | • Credit syndication guarantees  
|         | • Machinery credit and leasing guarantees  
|         | • Bid bonds/ tender security  
|         | • Advance payment guarantees  
|         | guarantees is being used to cover operating expenses  

| **Social Investment Fund** | 1998 | Companies Act (limited by guarantee)  
|                           |      | [to manage government and donor funds]  
|                           |      | 10-member Board includes representatives of MoF, NDPC, GEPA, NADMO, NGOs, ARB Apex Bank, local government, and the private sector  
| **Community development through:** |      | • project financing;  
|                           |      | • capacity building;  
|                           |      | • revolving fund for income-generating activities: microcredit and SSEs  
| **Microcredit group loans (under GHS 2000 per person)** |      | Medium-term SSE loans (under GHS 75,000)  
| **Amounts remaining in revolving funds:** |      | GHS 246,293 for microcredit; GHS 524,287 for SSEs  
| **$3 million Integrated Rural Development Project (BADEA & OFID) to begin in 2017** |      |  

| **Export Development and Investment Fund (EDIF);** | 2000 | Act 582 (statutory corporation)  
| **Export development and promotion;** |      | • Agricultural value chains (especially  
| **Credit Account** |      | • Research, Development and Promotion Account  
| **Has been supplanted by Exim Bank** |      |  

**Social Investment Fund**

- 1998
- Companies Act (limited by guarantee)
- Companies Act (limited by guarantee) [to manage government and donor funds]
- 10-member Board includes representatives of MoF, NDPC, GEPA, NADMO, NGOs, ARB Apex Bank, local government, and the private sector
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  - capacity building;
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- Medium-term SSE loans (under GHS 75,000)
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**Export Development and Investment Fund (EDIF);**

- 2000
- Act 582 (statutory corporation)
- Export development and promotion;
- Agricultural value chains (especially
- Credit Account
- Research, Development and Promotion Account
- Has been supplanted by Exim Bank
<table>
<thead>
<tr>
<th>Fund</th>
<th>Year</th>
<th>Authorizing Body</th>
<th>Board/Committee/Account Details</th>
<th>Objective/Programme Details</th>
</tr>
</thead>
</table>
| Export Trade, Agricultural & Industrial Development Fund (EDAIF) | 2011-2013 | Act 823; amended: Act 872 13-member Board, including representatives of specific institutions and stakeholders | - Project Account  
- Equity Account.  
- SMEs;  
- Import-substitution industries  
- for export);                                                                 | Make term financing of 3 years or more available for selected agricultural value chains; targeted to smallholder farmer groups in selected agricultural value chains, and technical operators supporting them  
Medium-to-long term refinancing vehicle for outgrowers and technical operators in the agricultural sector through a financial operator  
€ 24 million for second phase (signed in 2015).  
Another € 28 million is expected for a third phase.  
Funds expected to be committed by June 2017. |
| Microfinance and Small Loans Centre (MASLOC) | 2006 | Office of the President; Appoints 10-person Board from different disciplines | - Hold in trust GoG or donor funds for micro and small-scale credit  
- manage funds for microfinance and small scale credit and programmes.  
- Co-ordination and promotion of a decentralized microfinance system  
- Collaboration with other NBFIs in microfinance services.  | - Microcredit (group) loans (GHS 100-500 per member)  
- Small or individual loans (GHS 1-10,000)  
- Wholesale lending  
- Annual budget of GHS 5-10 million |
| Outgrower and Value Chain Fund (OVCF) | 2011 | Under Ministry of Food and Agriculture (MOFA); funded by German Development Cooperation (KfW). Consulting firm contracted to manage. Technical Compliance Committee approves loans | Make term financing of 3 years or more available for selected agricultural value chains; targeted to smallholder farmer groups in selected agricultural value chains, and technical operators supporting them  
Medium-to-long term refinancing vehicle for outgrowers and technical operators in the agricultural sector through a financial operator  
€ 24 million for second phase (signed in 2015).  
Another € 28 million is expected for a third phase.  
Funds expected to be committed by June 2017. |
<p>| Youth | 2014 | Office of the President | Entrepreneurs aged | Interest-free loans up to GHS 10 |</p>
<table>
<thead>
<tr>
<th>Enterprises Support (YES)</th>
<th></th>
<th>18-35 (existing or start-up)</th>
<th>GHS 50,000</th>
<th>million</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana Infrastructure Investment Fund (GIIF)</td>
<td>(Board appointed; executives being recruited)</td>
<td>GIIF Act, 2014 President appoints 9-member Board from private sector; plus Advisory Council (including MoF, BoG, NDPC, 2 from private sector)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ghana Exim Bank</td>
<td>(President to appoint CEO and Board)</td>
<td>Ghana Export-Import Act, 2016</td>
<td></td>
<td></td>
<td>Supplants EDAIF; expected to absorb ECL and EFCL</td>
</tr>
</tbody>
</table>
## Annex 2: Operational Performance of Development Finance Institutions

<table>
<thead>
<tr>
<th>Institution</th>
<th>Loans (guarantees) issued</th>
<th>Default rate (%)</th>
<th>Number of staff (of which, professional)</th>
<th>Operating budget (GHS million) (as % of loans)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Board for Small-Scale Industries (NBSSI)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015: 200</td>
<td>1.24</td>
<td>30.5</td>
<td>47</td>
<td>n.a.</td>
</tr>
<tr>
<td>2014: 66</td>
<td>0.37</td>
<td>43.9</td>
<td>(22)</td>
<td></td>
</tr>
<tr>
<td>Export Finance Company Ltd. (EFCL)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Eximguaranty Company Ltd (ECL)</td>
<td>2015: 211</td>
<td>28.05</td>
<td>32</td>
<td>5.1 (18%)</td>
</tr>
<tr>
<td>2012: 972</td>
<td>64.25</td>
<td>0.7</td>
<td>(25)</td>
<td>3.8 (6%)</td>
</tr>
<tr>
<td>Social Investment Fund (SIF): Microcredit Small-scale enterprises</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015: 3</td>
<td>0.65</td>
<td>7.7</td>
<td>10</td>
<td>Combined:</td>
</tr>
<tr>
<td>2012: 6</td>
<td>0.58</td>
<td>0.0</td>
<td>(6)</td>
<td>2015: 0.1 (5%)</td>
</tr>
<tr>
<td>2015: 8</td>
<td>1.38</td>
<td>17.5</td>
<td>2012: 0.06 (5%)</td>
<td>2012: 0.06 (5%)</td>
</tr>
<tr>
<td>2012: 7</td>
<td>0.64</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export Trade, Agricultural &amp; Industrial Development Fund (EDAIF)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Microfinance and Small Loans Centre (MASLOC)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>5-10 annual budget</td>
</tr>
</tbody>
</table>

Source: Data provided by the institutions.