

# AFD IN GHANA

A dynamic and sustainable partnership,  
in a country in transition





## GHANA: A FAST GROWING COUNTRY

Located between the Sahelian region in the north and the coastline in the south, Ghana is a West African English speaking country with a population of 24 million inhabitants. It is recognized for its firmly established democracy, its good economic performances (with an average economic growth rate of 6.3% between 2004 and 2010) and a favorable business environment.

With 2010 marked by Ghana becoming a **lower middle-income country** (GDP per capita of \$1,100) and the start of oil production, the country has entered a transition phase. The management of oil and gas resources is one of the coming main challenges for the country. It should ensure that growth is balanced and meets the expectations of the population. It should also accelerate the implementation of the government's development policies.

The poverty level in Ghana fell from 52% in 1990 to 28.6% in 2005.

By 2015, the country is expected to halve the level of poverty compared to 1990 and thus achieve the first Millennium Development Goal.

AFD, in consultation with the donor community working in Ghana, supports the Ghanaian authorities in the implementation of this transition, mainly through its operations to help improve living conditions of deprived communities and increase incomes equitably.

This new situation is central to the national strategy document for the period 2011-2013, the **Ghana Shared Growth and Development Agenda**, which focuses both on economic growth and the achievement of the Millennium Development Goals (MDGs).

## AFD IN GHANA: CONCENTRATION, EXPERIENCE AND ADDED VALUE

The AFD office in Ghana was the first to open in an English-speaking country back in 1985.

AFD has since focused its activities on three sectors, in line with both the national development strategy and the bilateral cooperation policy between Ghana and France:

- the **agricultural sector**, which provides employment and foreign currency;
- **support to local authorities and urban development**, a driving force in improving living conditions;
- **energy**, a core sector for both the country and the sub-region (ECOWAS).

In addition to activities in support to the Government, the Group allocates **direct financing to businesses and banks** in order to support productive investment projects, with a special focus on sectors such as infrastructure (energy, transport), agriculture and agro-industry.

More generally, AFD participates to the overall funding of the national development strategy, via its contribution to **general budget support**.

### GENERAL BUDGET SUPPORT

France, via AFD, directly contributes to financing Ghana's State budget, alongside nine other donors, through an allocation from the Debt Reduction Development Contract (debt conversion mechanism linked to the HIPC – Heavily Indebted Poor Countries – Initiative).



€800m

of financing since the agency opened in Ghana



Fresh fruit bunches harvest © Thomas de Gubernatis

## A WIDE RANGE OF TOOLS FOR DIVERSIFIED DEVELOPMENT OPTIONS

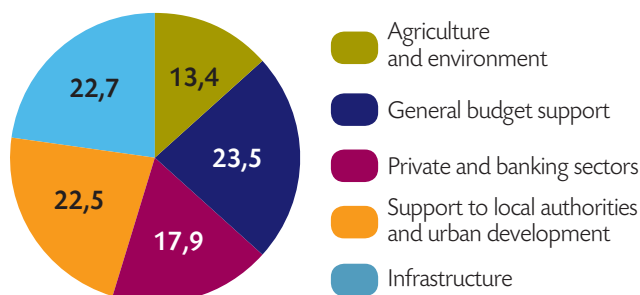
AFD provides financial support to Ghana through different tools:

- **concessional loans allocated to the Government** of Ghana (about €70m a year);
- **AFD's medium/long-term loans to State-owned companies** without a State guarantee (the so-called "non-sovereign" loans);
- **medium/long-term loans to private companies** or **public-private partnerships** (in particular through Proparco, AFD's private sector financing subsidiary);
- **Loan guarantees in local currency** from AFD (ARIZ risk sharing mechanism for single deal or portfolio) or Proparco;
- **Equity** or **quasi-equity** investments (Proparco and FISEA, Investment and Support Fund for Businesses);
- **Grants** for small amounts, notably study funds, the French Global Environment Facility (French GEF), Trade Capacity Building Program (PRCC) or capacity building programmes in combination with loans;
- **Facilities** for mesofinance or to strengthen governance;
- **Training** provided by CEFEB, AFD's corporate training center.

AFD also contributes to strategic research in sectors related to development by financing sector-based studies, research activities and publications, seminars, etc.

Between 2004 and 2010, the total amount of financing reached almost €400m (i.e. an annual average of €57m), which breaks down into €319m in loans, €74m in grants and €6m in guarantees.

Sectoral breakdown of authorised financing for 2004-2010 (in %)



## AFD, A PARTNER FOR LOCAL AUTHORITIES TO ENSURE SUSTAINABLE URBAN DEVELOPMENT

With an urban population growth estimated at 3.1% a year, Ghana's urbanisation rate follows the general trend of Sub-Saharan Africa. According to forecasts, 58% of the population will be urban dwellers by 2030.

The country's main cities are engines of economic growth and play a decisive role in the creation of wealth and poverty reduction. However, the concentration of people in urban areas leads to higher needs for infrastructure and service delivery, which have become more and more challenging to meet.

AFD's operations in the urban development sector have evolved from an "infrastructure financing" approach towards a wider support to integrated urban development. At the same time, with the strengthening of the decentralisation process, capacity and resources have been transferred to local authorities, which have become major stakeholders in urban development on the national political scene.

€206m

of financing for projects led by or for local authorities since 1997

## LOAN TO DEVELOP RUBBER OUTGROWER PLANTATIONS

Building on 15 years of experience in financing rubber outgrower plantations, in partnership with the Ministry of Food and Agriculture and GREL (Ghana Rubber Estate Ltd) AFD set up in 2010 the **first non-sovereign loan** (without State guarantee) to finance agriculture in Ghana.

Agricultural Development Bank consequently benefited from a €14m credit line to provide 2,750 rubber outgrowers with the financing they required to develop 10,500 ha of rubber plantations.

This financing is based on a tripartite agreement between the bank (the financial operator), GREL (the technical operator) and the association of rubber outgrowers (ROAA). This scheme is particularly innovative in the sense that:

- the bank benefits from a loan with a 15-year maturity, including a 7-year grace period, which matches the growth period of a rubber tree;
- as rubber is an export crop with prices set on international markets, and in order to reduce the foreign exchange risk, the loans to planters are in euros;
- the loan to planters is "countercyclical", i.e. loan repayments are indexed on their turnover: when prices are low, planters make small repayments. Conversely, when prices are high, planters repay faster.

AFD has been supporting this process for several years by helping local authorities in:

- **discharging their duties** (capacity building and support to decentralisation), notably via the *District Development Facility* (DDF, €15m) and
- **financing their infrastructure needs** via specific projects:
  - for **urban transport** in Accra and Kumasi (Kumasi by-pass, €23m, *Urban Transport Project*, €20m and Awoshie-Pokuase road, €30m),
  - for **water and sanitation infrastructure** (water supply in the Brong Ahafo region, €18.6m and *Urban Environmental Sanitation Project II*, €25m).

The new operations now focus on a more comprehensive approach to urban development, which combines support to decentralisation with a response to issues related to urban infrastructure. The new *Ghana Urban Management Pilot Programme* provides a good example of this approach (see box).

**€85m**  
of financing for agriculture  
since 1986

## SUPPORT TO THE AGRICULTURAL SECTOR AND RURAL DEVELOPMENT

Agriculture accounts for 40% of GDP, 57% of foreign exchange earnings and employs 60% of the domestic workforce.

The government has defined its strategic directions via the **Food and Agriculture Sector Development Policy II** (FASDEP II), which plans to develop more competitive commercial agriculture. This will increase producers' incomes and will support subsistence farming with a view to ensure food security.

AFD's activities in the sector are in line with this policy and are guided by the three-pronged objective of food security, poverty reduction and economic growth, while respecting a geographical balance between the north and the south of the country.

For example, in the north of the country, AFD helps rural communities to develop rain-fed lowland **rice** production (*Rice Sector Support Project – RSSP*, €13.8m). The aim is to increase yields, but also to improve the quality of production in order to encourage local rice consumption and reduce imports.

In the south of the country, especially in the Central and Western regions, AFD is appreciated for its long lasting support to the development of **rubber** and **oil palm** outgrowers plantations via partnerships with industrial operators and groups of smallholders.

Since the early 1990s, AFD has indeed been pursuing a programme to promote perennial crops in partnership with the Ministry of Food and Agriculture (*Programme for the Promotion of Perennial Crops – PPPC*), for which the currently ongoing phase amounts to €19.4m. A new phase for this project is being prepared for 2012. Since August 2010, AFD has also been implementing the first non-sovereign financing in this sector with



Drain construction © Thomas de Gubernatis

## URBAN DEVELOPMENT PROJECT

AFD is financing the €40.5m *Ghana Urban Management Pilot Programme* which targets four Ghanaian cities: Kumasi, Tamale, Sekondi-Takoradi and Ho.

The project aims to finance both the infrastructure needs in the four cities (markets, slaughterhouses, drains and community upgrading) and to support the authorities manage their territories more effectively (urban planning, financial management and creation of internally generated revenues).

These activities are part of a more general support for the definition of a national urban policy as well as the decentralisation policy.

ADB (Agricultural Development Bank) in order to develop new rubber outgrowing plantations with GREL (see box) by allocating loans to farmers.

The sector-based approach has had a significant impact on the development of agricultural production and on the increase in monetary income for the relevant rural communities. The models for the tripartite agreement have, in this respect, been an innovation that AFD wishes to develop for other crops (notably cocoa) with new technical and financial partners. AFD has consequently become a key development partner for the sector and its know-how as well as the direct impact of projects are recognised by the Ghanaian authorities.



Paddy rice cleaning before parboiling © Thomas de Gubernatis

## AFD AND THE PRIVATE SECTOR: PROMOTING INVESTMENT AND SUPPORTING SMEs

### Proparco, supporting investment

Proparco, AFD's private sector financing subsidiary, has a wide range of financial products comprising **long-term debt, equity investments** and guarantees. It focuses its action on four priority sectors which contribute to growth and development: basic infrastructure, business development, widespread access to credit and support to the fight against climate change.

Between 2005 and 2010, Proparco provided over €60m of financing for Ghana's economy in the banking and telecoms sectors.

### Facilitating access to credit and promoting productive SME investments



Street seller  
© Thomas de Gubernatis

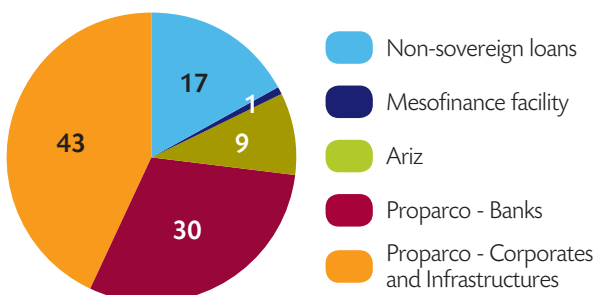
AFD helps financial institutions to introduce "**mesofinance**" via technical assistance and consequently gives access to credit to an intermediate category of SMEs, which are neither considered as micro-enterprises, nor as corporate. This type of financing is often the missing link between the range of financing options offered by microfinance institutions (MFIs) and those offered by commercial banks.

In Ghana, two financial institutions are currently benefiting from technical assistance for a total amount of €1.15m: the MFI Procredit under its upscaling strategy and SG SSB for its downscaling strategy.

AFD also promotes **ARIZ, a guarantee mechanism** designed to facilitate access to financing from commercial banks for SMEs and MFIs. Up to 50% of banks' outstanding loans to SMEs (75% for MFIs) can consequently be guaranteed by this mechanism, with a €2m cap per guarantee. These loans can be guaranteed either on a case-by-case basis, or under a portfolio guarantee (guarantee package allocated to a bank).

At the end of 2010, the total net commitment of ARIZ in Ghana stood at €6.09m, of which almost €5m were approved in 2010.

Breakdown of financing to the private sector  
for 2004-2010 (in %)



Akosombo dam © Bruno Leclerc

## ENERGY: A CORE DEVELOPMENT CHALLENGE

The strong economic growth experienced in Ghana and the need to continue to extend access to electricity for rural and urban communities makes energy one of the country's and the sub-region's major challenges.

Major institutional, organisational and tariff reforms have been conducted in recent years. In 2010, AFD consequently decided to support the power sector policy aiming at developing both production, transmission and distribution in the country.

Thanks to its wide range of financial instruments, AFD Group is in a position to provide comprehensive support:

- to the State, for example with a €50m soft loan approved in July 2011 to retrofit the Kpong dam and for studies on new hydropower sites. AFD is also planning to operate in the electricity distribution segment;
- to State-owned companies in the sector, notably via a direct loan to GRIDCO for works to strengthen the national grid and develop the electricity interconnection with Burkina Faso;
- to infrastructure or power generation projects under public-private partnerships (power plants for example), via equity investments or loans from Proparco and/or AFD;
- to the regional regulatory authority of the ECOWAS electricity sector (ERERA), via grants of €5m approved in 2005 and €1.7m delegated in 2010 by the EU-Africa Infrastructure Trust Fund.



Retail shop © Thomas de Gubernatis



Cape Coast © Julia Boulenouar

AFD, the *Agence Française de Développement*, is a public development finance institution that has worked to fight poverty and support economic growth in developing countries and the French Overseas Provinces for 70 years. AFD executes the French government's development aid policies.

Through offices in more than fifty countries and nine French Overseas Provinces, AFD provides financing and support for projects that improve people's living conditions, promote economic growth and protect the planet: schooling, maternal healthcare, help for farmers and small business owners, clean water supply, tropical forest preservation, and fighting climate change, among other concerns.

In 2010, AFD approved more than €6.8 billion for financing aid activities in developing countries and the French Overseas Provinces. The funds will help 13 million children go to school, improve drinking water access for 33 million people and provide €428 million in microloans benefiting more than 700,000 people. Energy efficiency projects financed by AFD in 2010 will save nearly 5 million tons of carbon dioxide emissions annually.

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PROPARCO, AFD's subsidiary dedicated to private investment, promotes private investment in emerging and developing countries in order to boost growth, promote sustainable development and reach the Millennium Development Goals. Its financing is tailored to the specific needs of investors in the productive sector, financial systems, infrastructure and private equity investment.



[www.ffem.fr](http://www.ffem.fr)

FFEM is a bilateral public facility set up by the French Government in 1994 following the Rio Summit. It aims at promoting global environmental protection via sustainable development projects in developing or transition countries. The French Global Environment Facility supports physical projects in recipient countries. Its operations are learning-based and support experimental, innovative or exemplary approaches.



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