

MAINSTREAMING GREEN BUSINESS FINANCING SUPPORT



Prepared by



In partnership with
Canada



Climate *innovation* Centre
Ghana



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LIST OF ACRONYMS AND ABBREVIATIONS

Acronym	Full Meaning
AfDB	African Development Bank
DBG	Development Bank Ghana
ESRD	Economic Strategy & Research Division
EPA	Environmental Protection Agency
GCF	Green Climate Fund
MESTI	Ministry of Environment, Science, Technology and Innovation
PFI	Participating Financial Institution
SME	Small and Medium Enterprise
SNV	SNV Netherlands Development Organization
UN	United Nations
WGV	Wangara Green Ventures
WBG	World Bank Group

CHAPTER 1

INTRODUCTION



1.0 Introduction

1.1 Background

The global landscape has witnessed a growing frequency and heightened intensity of climatic disruption, including recurring droughts, severe storms, prolonged heatwaves, escalating sea levels, and inundating floods. The impact of these catastrophic events has wreaked havoc on livelihoods and to a large extent destroyed the habitat of most wildlife. The economic cost and social consequences of these catastrophic events have necessitated considerable attention and eminent actions from various governments, international agencies, businesses, and individuals in embracing adaptation and mitigation measures.

Amongst other policies that governments across the world are employing to deal with the issues of climate change, green business financing and investment has emerged strongly. Green finance has been defined as an investment and financing activity that leads to the generation of environmental benefits and support to sustainable development. It is intended to invest in sustainable projects through policies like green bonds, tax incentives for sustainable investments, and the integration of environmental factors in financial decision-making. Financing green Small and Medium Enterprise (SMEs) businesses can be a potent force for positive transformation to environmental sustainability. It presents a paradigm shift from traditional financial practices towards a new frontier that integrates profitability with responsible stewardship of the planet's resources.

The contributions of SMEs towards economic growth and social development cannot be overemphasized. As a result, SMEs have been referred to as the backbone of every economy. In Ghana, SMEs account for over 70% to Ghana's Gross Domestic Product (GDP) and constitute more than 85% of all enterprises in the country.

Numerous funding mechanisms and investment products have been developed to channel resources into SMEs and projects that champion clean energy, resource efficiency, and sustainable practices to catalyze a revolutionary transition to a low-carbon, resilient global economy. Despite these green funding mechanism and investment, there appears to be a prevalent lack of awareness among SMEs regarding the array of green business financing options at their disposal.

This paper sets out how green business financing support can be mainstreamed amongst SMEs in Ghana. It explores innovative funding mechanisms, ethical investment strategies, and the expanding network of stakeholders championing the cause of green finance for SMEs in Ghana.

1.2. Aim and Objectives

The overall objective of the paper is to understand green finance sources available to SMEs and how these financing supports can be mainstreamed in Ghana. It has further been sub-divided into the following objectives:

- Review the current state of green financing within the Ghanaian context.
- Document lessons learnt from developed countries in showcasing innovative models for green business finance mainstreaming.
- Explore strategies that can be adopted to promote green business financing within the Ghanaian context.
- Offer policy and strategic measures to mainstream green business financing in Ghana.

1.3. Approach to Paper

This paper is based on industry knowledge, relevant literature, and stakeholder engagement. The stakeholders were engaged through a roundtable dialogue to specifically discuss incentives for green businesses. The stakeholders included Development Bank Ghana, Ministry of Finance, Ghana Investment Promotion Centre, GIZ, and Ecobank. Some businesses in the green space were also engaged for a nuanced appreciation of the issues.

1.4. Organisation of the Paper

The paper is structured as follows:

- Chapter one provides a brief background to the study, including outlining its objectives.
- The second chapter provides an analysis of the current state of green financing within the context of Ghana. It explores existing initiatives, policies, and practices related to sustainable financial mechanisms.
- The third chapter examines case studies from developed countries to showcase innovative models and mechanisms for green business financing. Lessons learned from these examples are discussed in the context of their applicability to Ghana's unique circumstances.
- The primary objective of chapter four is to conduct a thorough analysis of various areas and strategies that can be adopted to promote and strengthen green business financing within the context of Ghana.
- Chapter five outlines the key findings and provides recommendations aimed at addressing the gaps in mainstreaming green business financing.

CHAPTER 2

CURRENT STATE OF GREEN BUSINESS FINANCING IN GHANA



2.0 Current State of Green Business Financing in Ghana

Ghana, akin to numerous developing nations, confronts a constellation of environmental challenges ranging from the impacts of climate change to the conundrums of deforestation and inadequate waste management. While the government has taken commendable strides by enacting policies and initiating programs to address these concerns, the harmonious integration of green financing within the national economic fabric remains relatively underdeveloped.

Green financing, undoubtedly, has the potential to transform Ghana into a green economy. Access to green finance for Small and Medium-sized Enterprises (SMEs) can be challenging due to various factors that arise from their unique characteristics and the complexities of financing environmentally sustainable projects. These challenges include limited awareness and understanding of green financing options and their benefits, often hindering the identification of suitable environmentally sustainable projects. SMEs are usually faced with high initial costs associated with eco-friendly technologies and practices; this puts a lot of strain on SMEs typically due to limited financial resources. The hurdle lies more with the difficulty in securing credit facilities, as they may lack the required collateral for their green projects. Moreover, complex project evaluation, risk perception, short-term financial pressures, and mismatches in loan tenures, further discourage SMEs from pursuing green initiatives. Additionally, regulatory uncertainty, the absence of standardized metrics for environmental impact assessment, and limited access to formal financial markets exacerbate the hurdles SMEs face in accessing green finance.

Despite the various green financing options available, including instruments such as green bonds and sustainable loans, it is evident that their utilisation remains limited. Furthermore, the necessary awareness among businesses and financial institutions regarding these options has not reached a significant level. To bridge this gap, there is an urgent need to raise awareness on the latent opportunities that lie dormant within the green financing landscape.

SMEs in Ghana have access to various financing options from grants and public sector related financing to funding alternatives from the private sector and financial institutions.

2.1. Green Financing Sources in Ghana

2.1.1 Grants and Public Sector Green financing

A broad mix of financing options exist for green businesses in Ghana. A significant portion of the entirety of green finance movement consist of grant-based funding through the public sector. In Ghana, Microfinance Institutions (MFIs) and Banking, Finance, Insurance and Securities (BFIS) are the main providers of public sector green finance to SMEs. They constitute the predominant mechanisms for generating climate finance, accounting for approximately 72% of the financing mix. They are succeeded by other international climate funds and outcome-oriented frameworks.

Grants and public sector support for green financing come from various sources, including government agencies, international organizations, development partners, and non-governmental organizations. The funds are usually targeted at SMEs pursuing businesses or projects within the following category: renewable energy, energy efficiency, sustainable water and wastewater management, clean transportation, and green buildings.

Box 1: Grants and public sector green financing support available for SMEs in Ghana

I. Green Climate Fund has currently disbursed USD4.7 million in green financing

SMEs can apply for financing for projects under approved GCF programs or direct access to the GCF if they qualify and are accredited by the National Designated Authority (NDA) in Ghana - The Economic Strategy & Research Division (ESRD) of Ministry of Finance.

II. NGOs like Wangara Green Ventures is investing between USD50,000 to

USD500,000 in green business. They are investing in equity and quasi-equity in sustainable green businesses focusing on renewable energy, waste and water management, climate-smart agriculture, and energy efficiency priority sectors.

III. AV Ventures Ghana Fund is making investments in SMEs in Ghana.

SMEs can access green financing from the USD3.6million agribusiness fund. It intends to improve the economic livelihoods of small holder farmers, digitize small holder farmers' activities, link them to markets and boost financial inclusion.

2.1.2 Green Financing Support from Financial institutions

With mounting pressure on the private sector, especially financial institutions, to meet the demands of Environmental, Social, and corporate Governance (ESG) issues, financial institutions in Ghana are increasingly extending green finance support to Small and Medium-sized Enterprises (SMEs) through various mechanisms.

The sustainable banking principles published by the Bank of Ghana encourages banks to develop and offer green financing products, such as green loans or green bonds, which are specifically designed to support environmentally responsible businesses and projects. These products developed by the banks are attracting businesses looking for funding to pursue sustainable initiatives.

Ecobank for example under their sustainable finance framework is issuing green, social or sustainability bonds, loans, or other debt instruments (“Sustainable Financing Instruments”), to finance and refinance Eligible Green and/or Social Projects that conform to the sustainable finance principles below:

- I. International Capital Market Association (“ICMA”) Green Bond Principles (“GBPs”) 2018¹, Sustainability Bond Guidelines (“SBGs”) 2018² and Social Bond Principles (“SBPs”) 2023; and/or
- II. Loan Market Association (“LMA”) Green Loan Principles (“GLPs”) 2021⁴ and Social Loan Principles (“SLPs”) 2021

The Bank’s Ghana Green Energy Financing Program aids SMEs in adopting renewable energy solutions like solar panels and energy-efficient equipment.

The African Development Bank (AfDB) Ghana's Green Loan Scheme provides financing for SMEs engaged in eco-friendly agricultural practices. Fidelity Bank Ghana's Green Finance Advisory Services offer personalized consultations to guide SMEs on adopting sustainable business practices, while Ghana Export-Import (GEXIM) Green Export Fund supports SMEs in export-oriented sustainable projects. Barclays Bank Ghana (now Absa Bank) and Standard Chartered Bank Ghana have introduced initiatives like reduced-interest green loans and sustainable supply chain financing, respectively, to promote SME engagement in environmentally responsible projects and practices.

These exemplify diverse strategies financial institutions employ, ranging from specialized loan schemes and advisory services to tailored funds and sustainable supply chain support. This in the long run is fostering a culture of green finance for Ghanaian SMEs.

Box 2: Green financing support from Financial Institutions available for SMEs in Ghana

I. **DBG's Green Climate Investment Programme is providing financing solutions for green and climate-resilient projects.** Participating Financial Institutions (PFIs) are required to allocate 5% of their funds to SMEs engaged in climate adaptation projects.

II. **The Fidelity Young Entrepreneurs Fund presents an alternative financing option for SMEs seeking green financing.** The fund was setup to support existing businesses and start-ups of young entrepreneurs in the society, employing climate-smart adaptation or mitigating processes in their activities and those that are easily scalable with lower interest rate loans and an ecosystem that supports their growth.

III. **The eco. business fund provides debt financing and technical assistance to financial institutions and businesses committed to environmental practices in unique ecological landscapes both in Latin America and sub-Saharan Africa.** As an impact investment fund, it made its first investment in Ghana in 2022, extending a USD15million loan to Fidelity Bank Ghana Ltd. to be on-lent to a wide range of agribusinesses that cover the entire value chain - from food production to staples and export crops - while promoting production and consumption practices that contribute to the sustainable use of natural resources and biodiversity conservation.

2.1.3.1 CROWD INVESTING

Crowd investing presents an alternative financing option for SMEs seeking green financing. It is a method of raising funds for a project, business, or initiative by collecting small amounts of money from many individuals, typically through online platforms. It allows entrepreneurs, start-ups, and organizations to bypass traditional sources of funding like banks or venture capital and directly engage with a broader community of investors or supporters.

Frankly.green is a new crowd investing platform and part of the International Climate Initiative (IKI). Although based in Frankfurt, Germany, it is currently serving businesses in Ghana, Rwanda, Egypt, and Peru. It is fully committed to green investment and only supports projects that meet certain defined ecological, social, and economic selection criteria. Green SMEs seeking financing can submit an application to frankly.green and if their application is successful, they will be able to use the platform to present their businesses to the crowd of German and European retail investors for fundraising, thereby having the opportunity to raise six-figure loans for their business.

CHAPTER 3

CASE STUDY: LESSONS FROM DEVELOPED COUNTRIES



3.0 Lessons from Developed Countries

Several developed countries have, over time, unveiled laudable accomplishments in terms of mainstreaming green business financing support. Notably, the experiences of Germany, the United Kingdom, amongst others stand as exemplary models. These nations have demonstrated the efficacy of constructing robust regulatory frameworks and pioneering innovative financial instruments that seamlessly incentivize and endorse environmentally responsible business practices. The experiences of these countries unravel a repository of insights that can be judiciously tailored and calibrated to align with Ghana's distinct socioeconomic context.

3.1. Lessons from Developed Countries - Country Perspective

3.1.1 The central ownership of the green agenda should rest within finance ministries, as demonstrated by several developed nations.

Notably, the Lima Climate Finance Week marked a significant milestone with the involvement of environment and finance ministers in high-level discussions. Peru's finance minister, Luis Miguel Castilla, emphasized the need for integrating climate change considerations into national budgets and planning. This approach has been effectively embraced by countries such as Germany, United Kingdom (UK), Colombia, Mexico, Korea, Morocco, Denmark, New York State, and British Columbia. These nations have leveraged their authority to shape budgets, implement climate-friendly fiscal policies like carbon pricing, and align public finances to attract private investments for low-carbon infrastructure. It is noteworthy that a comprehensive national framework encompassing novel strategies, policies, budgets for public finance, and assessment of climate change impacts on development could be adopted, particularly by developing nations. While this initiative is still in its infancy in Ghana, it warrants further refinement.

3.1.1.1 The case of Germany

In the case of Germany, the Energiewende policy is a good example of government setting the tone at the top. It is a comprehensive national strategy to transition the country's energy sector from fossil fuels and nuclear power to renewable energy sources, reduce greenhouse gas emissions, and promote sustainability. In doing so, government has provided financial incentives and support mechanisms, such as feed-in tariffs and direct subsidies, to encourage the installation of wind turbines, solar panels, and other renewable energy infrastructure. These incentives make it financially attractive for SMEs to invest in clean energy.

Nearly half of renewable energy in Germany was produced by private persons, energy cooperatives and farmers who are mainly SMEs. Government agencies, such as the German Federal Environment Agency (Umweltbundesamt) and state-level environmental ministries, provide advisory services to help SMEs develop and implement sustainable business strategies. They offer guidance on energy efficiency, waste reduction, and compliance with environmental regulations. The state-level environmental agency maintains a dedicated website with clear information on available green business support programs, including detailed guidelines, application forms, and contact information. SMEs can easily access and understand the available resources. In the case where grants are needed for adopting energy-efficient technologies, SMEs would need to provide evidence of their technology purchase and installation along with energy savings data to qualify for the grant.

To onboard SMEs effectively unto the program, Germany has established an SME Advisory Board within the Federal Ministry for Economic Affairs and Energy, comprised of independent experts. This board plays a key role in examining the present conditions and future economic outlook for small and medium-sized enterprises (SMEs), with a particular emphasis on professional services. Its primary function is to provide guidance to the Federal Minister regarding the potential consequences of structural shifts on SMEs and to evaluate how domestic economic policies are influencing these businesses and provide guidance in accessing funding support.

3.1.1.2 THE CASE OF THE UNITED KINGDOM

The United Kingdom presents similar approach with setting the tone at the top. It became the first country to publish a green finance strategy in 2019 . In 2021, government placed finance at the heart of its COP26 Presidency and became the first G20 nation to require the largest companies and financial firms to make public how they are responding to financial risks and opportunities from climate change. Government established a UK Infrastructure Bank with £22 billion of capital to level up and decarbonise our economy. Over £26 billion was raised through selling green gilts. All these measures have given the UK a strong head start in the race to finance the green Industrial Revolution.

The green finance strategy recognizes the importance of supporting SMEs in their efforts to adopt green business practices and invest in environmentally responsible projects . It does so through a variety of initiatives and measures that address the specific needs and challenges faced by SMEs in the transition to a green economy. The efficiency of this strategy is the consistent yearly structural and operational review in response to changing demands. The strategy clearly defines the green taxonomy – “defining what counts as green”, outlines both public and private levers available for green business support and the eligibility criteria in accessing these funds. This provides adequate information and guidance to SMEs seeking green business support from government.

3.1.2 EQUALLY VITAL IS UNDERSTANDING THAT GREEN FINANCE IS NOT SOLELY ABOUT CHANNELLING FUNDS THROUGH INNOVATIVE MECHANISMS

The other dimension involves cultivating demand for climate finance and nurturing a pipeline of viable investments through collaborative efforts between governments and financial institutions. Collaboration between the UN Sustainable Energy for All finance committee and Bank of America identified that the provision of high-quality deal flow remains a substantial barrier to green finance in emerging economies. Initiatives such as the Global Innovation Lab for Climate Finance are striving to develop novel green finance tools to address persistent barriers for SMEs . One example is the Climate Development and Finance Facility, which recognizes the scarcity of early-stage project scoping or business speculation by commercial banks and institutional investors. Furthermore, the Green Climate Fund underscores the significance of building a robust project deal flow to enhance country preparedness for climate funds. Developing nations are being equipped with best practices to create national policies and programs conducive to securing funding from various sources.

3.1.3 THE ROLE OF PUBLIC FINANCING IS PIVOTAL IN CATALYSING PRIVATE INVESTMENT AND CULTIVATING NEW MARKETS FOR GREEN FINANCING

The Climate Investment Fund's effective utilization of "Programmatic Loans" strategy is illustrative of aligning public funds with crucial policies to stimulate private investment. This strategy is exemplified by successful renewable energy projects in Mexico and Chile, where public financing and technical assistance enhanced the enabling environment. Financial institutions and private sector developers echo the importance of public finance entities in transforming green financing into an attractive growth opportunity. Notably, public finance interventions in the renewable energy sector transformed risk perceptions, encouraging Chile's Banco BICE and other domestic banks to invest significantly. This sentiment is mirrored by Peruvian bank BCP, underscoring the role of public financing and policy support in reshaping green financing into a burgeoning avenue for growth.

Box 3: Lessons from Developed Countries – Country Perspective

a. The central ownership of the green agenda should rest within finance ministries, as demonstrated by several developed nations. This approach has been effectively embraced by countries such as Germany, UK, Colombia, Mexico, Korea, Morocco, Denmark, New York State, and British Columbia. These nations have leveraged their authority to shape budgets, implement climate-friendly fiscal policies like carbon pricing, and align public finances to attract private investments for low-carbon infrastructure. It is noteworthy that a comprehensive national framework encompassing novel strategies, policies, budgets for public finance, and assessment of climate change impacts on development could be adopted, particularly by developing nations. While this initiative is still in its infancy in Ghana, it warrants further refinement.

b. Equally vital is understanding that green finance is not solely about channelling funds through innovative mechanisms. The other dimension involves cultivating demand for climate finance and nurturing a pipeline of viable investments through collaborative efforts between governments and financial institutions. Collaboration between the UN Sustainable Energy for All finance committee and Bank of America identified that the provision of high-quality deal flow remains a substantial barrier to green finance in emerging economies. Initiatives such as the Global Innovation Lab for Climate Finance are striving to develop novel green finance tools to address persistent barriers for SMEs.

One example is the Climate Development and Finance Facility, which recognizes the scarcity of early-stage project scoping or business speculation by commercial banks and institutional investors. Furthermore, the Green Climate Fund underscores the significance of building a robust project deal flow to enhance country preparedness for climate funds. Developing nations are being equipped with best practices to create national policies and programs conducive to securing funding from various sources.

c. The role of public financing is pivotal in catalysing private investment and cultivating new markets for green financing. The Climate Investment Fund's effective utilization of "Programmatic Loans" strategy is illustrative of aligning public funds with crucial policies to stimulate private investment. This strategy is exemplified by successful renewable energy projects in Mexico and Chile, where public financing and technical assistance enhanced the enabling environment. Financial institutions and private sector developers echo the importance of public finance entities in transforming green financing into an attractive growth opportunity. Notably, public finance interventions in the renewable energy sector transformed risk perceptions, encouraging Chile's Banco BICE and other domestic banks to invest significantly. This sentiment is mirrored by Peruvian bank BCP, underscoring the role of public financing and policy support in reshaping green financing into a burgeoning avenue for growth.

3.2. LESSONS FROM DEVELOPED COUNTRIES – FINANCIAL SECTOR PERSPECTIVE

Banks and other financial institutions in Ghana can draw valuable lessons from developed countries' experiences in providing green business finance to SMEs.

3.2.1 BANKS IN DEVELOPED COUNTRIES HAVE CUSTOMIZED FINANCIAL PRODUCTS FOR GREEN BUSINESS FINANCING

Developed countries have demonstrated the effectiveness of offering specialized financial products tailored to the needs of SMEs pursuing green projects. The products have been structured into green loans and green lines of credit, project-based financing, energy efficiency financing, leasing and equipment financing amongst others. European banks like ING in the Netherlands offer green loans to SMEs, allowing them to borrow money at favourable rates for investments in sustainable projects.

3.2.1.1 THE CASE OF ING BANK

ING is one of the few banks taking giant steps within the sustainability space, pioneering innovative forms of finance to support a low-carbon future. Recently, it patterned with European Investment Bank (EIB) to provide €600 million in new loans to small and medium-sized enterprises in the Netherlands, Belgium, and Luxembourg to boost sustainability. It also granted €85.2 million for a circular economy project which aims to recover and recycle more than 6 billion pieces of packaging annually, integrating a financial incentive scheme for the return of packaging in Romania.

The bank finances sustainable projects through green loans, green bonds, and other innovative products and financing structures such as its Sustainability Improvement Loan. These loans incentivise companies' sustainability performance by linking the interest margin to the improvement of the companies' ESG score or to the improvement on tailored sustainability KPIs. In addition to the ESG rating-linked sustainability improvement loan, SMEs can also choose to link its margin to specific sustainability-related performance indicators.

To support the strong growth of the bank's Sustainable Finance portfolio and to meet the green funding needs, ING designed a Green Bond Framework in line with the ICMA Green Bond Principles, which meets the highest standards on transparency and disclosure.

3.2.2 A TWO-WAY STREET- BANKS IN DEVELOPED COUNTRIES PROVIDE TECHNICAL ASSISTANCE AND CAPACITY BUILDING

Banks in developed countries often provide more than just funding – they offer technical assistance, mentorship, and capacity-building programs to help SMEs navigate the complexities of green business.

The Bank of Scotland in the UK launched the "Resource Efficient Scotland SME Loan Scheme," offering both financial support and expert advice to SMEs for adopting energy-efficient measures. Ghanaian banks can replicate this model by providing SMEs with access to energy audits, feasibility studies, and guidance on implementing resource-efficient solutions.

For ING, pursuing sustainability is not all about the money. It posits that considerable efforts are required from identification of use of proceeds, to project evaluation, to the management of proceeds; all of which require efforts over and above what would be typical for issuance of a vanilla banking product. "Extra effort is required to ensure compliance with prior project selection, and often external assurance firms are needed to confirm sustainability quality".

3.2.3 COLLABORATION AND PARTNERSHIPS

Collaboration between financial institutions, government agencies, international organizations, and industry associations is essential for scaling up green business finance. Germany's KfW Bankengruppe collaborates with the European Investment Bank and other partners to provide financial support for climate-friendly projects. Ghanaian financial institutions can establish similar collaborations with local development agencies, industry associations, and global financial institutions to amplify the impact of green business finance.

3.2.4 RISK MITIGATION AND CREDIT SCORING

Banks in developed countries have created innovative approaches to assess the creditworthiness of SMEs engaged in green projects. The Nordic Investment Bank considers a project's environmental impact and sustainability as part of its credit analysis. Ghanaian banks can develop their credit scoring systems that consider SMEs' commitment to sustainability when evaluating loan applications.



CHAPTER 4

ANALYSIS OF AREAS THAT CAN BE ADOPTED



4.0 ANALYSIS OF AREAS THAT CAN BE ADOPTED

Embracing the lessons gleaned from the successful experiences of Germany, and the United Kingdom, Ghana can take strides in adopting areas that will bolster its own green business financing landscape to guide the mainstreaming of green business financing in Ghana, the following salient approaches merit consideration:

4.1. ANALYSIS OF AREAS THAT CAN BE ADOPTED BY GOVERNMENT

4.1.1 OWNERSHIP OF THE GREEN AGENDA BY FINANCE MINISTRIES

Ghana can significantly benefit from adopting the practice of integrating climate change considerations into its national budget and planning processes, as demonstrated by developed countries like Germany and the UK.

Ghana is already making strides with adopting the approach of integrating climate change risks and opportunities into its national budget and planning processes. The country has developed a Sustainable Financing Framework that enables government to provide green financing by issue of green, social and/or sustainability instruments in either use-of proceeds format or sustainability-linked format. Implementing this comprehensive national framework (that encompasses strategies, policies, and budgets for green finance targeted at various climate-related investment opportunities) can provide SMEs with a clear pathway to sustainable projects. This initiative can pave the way for long-term sustainability planning, promote green investments, align financial resources with environmental objectives and attract private investments for green initiatives.

Areas of improvement will require government to setup a special SME Advisory Board within the Ministry of Finance and Economic Planning as done by Germany. The Advisory Board will provide guidance to the Minister of Finance regarding the potential consequences of structural shifts on SMEs and to evaluate how domestic economic policies are influencing these businesses and provide guidance in accessing funding support. A dedicated website or repository will have to be created to display governments' green business funding avenues for SMEs and have a yearly focus of which areas of sustainability are being considered as well as displaying the criteria for selection and all relevant documents required to access the green support.

4.1.2 ADDRESSING BOTH PERSPECTIVES OF GREEN FINANCE

Ghana should consider adopting a two-pronged approach that not only facilitates the provision of green finance but also focuses on creating a robust pipeline of viable green projects. Collaborating with financial institutions and other stakeholders to nurture a high-quality deal flow is essential for attracting climate finance. Initiatives like the Global Innovation Lab for Climate Finance can be explored to develop novel climate finance tools that address the barriers hindering SMEs' access to green financing. By acknowledging the need for demand-driven financing mechanisms and fostering collaboration between governments and financial institutions, Ghana can ensure that a range of investable green projects are available, attracting climate-friendly investments.

Government, through the Ministry of Finance, could partner financial institutions to ensure that the overall objective in meeting green sustainable goals is achieved. The national budget for climate and green related agendas can be apportioned to reputable pay-out banks to ensure that process of identification of use of proceeds, to project evaluation, to the management of proceeds are rigorously executed to ensure some credibility to the sustainability-linked funds.

4.1.3 ROLE OF PUBLIC FINANCING IN PROMOTING PRIVATE INVESTMENT

Ghana can follow the example of leveraging public finance to create new markets for green investment. Embracing strategies such as "Programmatic Loans" that link public funds to crucial policies for stimulating private investment can be impactful. By investing in projects that demonstrate clear environmental benefits, Ghana can catalyse private sector engagement in green initiatives. Collaborative efforts between public finance entities, financial institutions, and development organizations can help build an enabling environment for green projects. This approach not only attracts private investment but also enhances SMEs' capacity to participate in sustainable ventures.

Incorporating these lessons into Ghana's green business financing strategy for SMEs can foster a holistic and effective approach. It can align financial resources with sustainable objectives, create a favourable ecosystem for green investments, and empower SMEs to contribute to the country's environmental goals. This integrated approach, spanning policy, finance, and collaboration, can position Ghana as a leader in promoting green business financing for SMEs, thereby contributing to both economic growth and environmental sustainability.

4.2. ANALYSIS OF AREAS THAT CAN BE ADOPTED BY FINANCIAL INSTITUTIONS

Drawing lessons from developed countries, several key areas emerge as essential for Ghanaian banks to consider in their efforts to promote green business financing for SMEs. Incorporating these key areas into their policies and practices, Ghanaian banks can make significant strides in providing effective green finance solutions to SMEs. By aligning financial services with sustainable development objectives, banks contribute to the growth of a resilient, competitive, and environmentally responsible SME sector, thereby fostering long-term economic prosperity and environmental preservation.

4.2.1 CUSTOMIZED FINANCIAL PRODUCTS

Ghanaian banks can introduce specialized financial products tailored to SMEs' green initiatives. For instance, "Green Growth Loans" could offer preferential interest rates and extended repayment terms for SMEs implementing energy-efficient technologies or waste reduction measures. These loans could be designed with flexibility to accommodate the cyclical nature of certain green projects, aligning financial products with the unique needs of environmentally conscious businesses.

4.2.2 TECHNICAL ASSISTANCE AND CAPACITY BUILDING

Banks can collaborate with sustainability experts to provide technical assistance. Workshops could be organized to educate SMEs about sustainability best practices and project implementation. For example, "Sustainable Business Workshops" could offer guidance on topics like carbon footprint reduction, water conservation, and circular economy principles. By facilitating access to expert advice, banks empower SMEs to make informed decisions that enhance the environmental and financial viability of their projects. This approach not only improves the success rate of green projects but also enhances SMEs' overall business resilience and competitiveness.

4.2.3 COLLABORATION AND PARTNERSHIPS

Ghanaian banks can partner with industry associations to launch initiatives such as the Green SME Consortium. This platform could bring together banks, SMEs, government agencies, and environmental organizations to collectively advance green financing. Collaborations with international organizations like the United Nations' Green Climate Fund could result in joint programs that offer funding, technical expertise, and market access to SMEs pursuing sustainable projects.

4.2.4 RISK MITIGATION AND CREDIT SCORING

Banks can adopt innovative credit scoring models that consider the environmental impact of SMEs' activities. An "Environmental Credit Score" could incorporate factors like energy efficiency, waste reduction, and sustainable supply chain practices. For instance, an SME with a solar-powered manufacturing process and a commitment to zero-waste operations could receive a higher environmental credit score, indicating lower risk and potentially better loan terms.



CHAPTER 5

CONCLUSION AND RECOMMENDATIONS



5.0 CONCLUSION AND RECOMMENDATIONS

5.1. CONCLUSION

Ghana stands at a pivotal juncture in its pursuit of sustainable economic development. The role of Small and Medium-sized Enterprises (SMEs) cannot be underestimated in this journey. As the backbone of the economy, SMEs have the potential to drive innovation, create jobs, and contribute to environmental preservation through green initiatives. The integration of green financing support into the SME ecosystem is a transformative approach that aligns economic growth with environmental responsibility. This paper has drawn insights from the experiences of developed countries, highlighting key lessons that can guide Ghana's efforts in mainstreaming green financing support to SMEs. These lessons underscore the importance of tailored financial products, technical assistance, collaboration, risk mitigation, and financial incentives. Although there exists some level of green financing support for the SME ecosystem, both government and private sectors have the unique opportunity to become catalysts of change by adopting these lessons and translating them into more practical actions, that will consequently result in the mainstreaming of green business financing.

5.2. RECOMMENDATIONS TO GOVERNMENT

a. Integrate Green Financing Support in National Policies

Collaborate with relevant ministries, including finance, environment, and industry, to incorporate green financing incentives and regulations into national policies. This integration would create a conducive environment for SMEs to access green financing and align their business strategies with sustainability goals. Ghana should develop a comprehensive national strategy like Germany's Energiewende policy. This strategy should outline clear goals and initiatives for transitioning the country's energy sector to renewable sources, reducing greenhouse gas emissions, and promoting sustainability.

Apart from the national green policy, government will have to develop a green finance strategy, as seen in the UK, to encourage financial institutions to support green and sustainable initiatives. Encourage financial firms to disclose how they are responding to financial risks and opportunities from climate change. Consider issuing green bonds or green financial instruments to raise capital for green projects.

It is important for government to create user-friendly resources, such as dedicated websites, that provide clear information on available green business support programs, including guidelines, application forms, and contact information. The platforms should clearly define a "green taxonomy" that outlines what counts as green and environmentally responsible. This will help SMEs understand the criteria for accessing green business support and encourage businesses to align with green practices. To ensure effectiveness of government policies and strategies, it is important for government to conduct consistent yearly structural and operational reviews of the green strategy to adapt to changing demands and ensure its effectiveness in promoting green initiatives.

b. Create a Green Finance Advisory Council

Form a dedicated advisory council comprising representatives from banking institutions, SME associations, environmental organizations, and relevant government bodies. This council would provide strategic guidance, monitor progress, and recommend policy adjustments to ensure the effective implementation of green financing initiatives.

c. Establish Tax Incentives for Green Investments

Introduce tax deductions or credits for SMEs engaged in environmentally friendly projects. These incentives could cover expenditures related to renewable energy adoption, energy efficiency improvements, and waste reduction initiatives. Such tax benefits would motivate SMEs to invest in sustainable practices and make green projects financially appealing. Although such tax incentives exist in Ghana, government needs to simplify the process by eliminating bureaucracies and difficulties involved in accessing these tax incentives.

d. Facilitate SME Participation in International Green Funds

Government should work with international bodies such as the UN, World Bank, GIZ amongst others to create pathways for Ghanaian SMEs to access global green funds and initiatives. Provide guidance to SMEs on the application process, eligibility criteria, and project proposal development to increase their chances of securing international green financing.

5.3. RECOMMENDATIONS TO INTERNATIONAL BODIES

a. Streamline Funding Application Processes

Simplify the application processes for green financing programs to ensure that Ghanaian SMEs can access international funds with ease. Provide clear guidelines, standardized application forms, and support through information dissemination workshops.

b. Tailor Financing Criteria to Local Context

Recognize the unique challenges and opportunities in Ghana's SME sector and tailor eligibility criteria for international green financing programs accordingly. Consider factors such as local economic conditions, regulatory environment, and specific sustainability priorities.

c. Offer Technical Assistance and Capacity Building

Collaborate with local partners to organize training sessions, workshops, and webinars that enhance SMEs' knowledge of international green financing opportunities. Provide guidance on proposal writing, project development, and alignment with international sustainability standards.

5.4. RECOMMENDATIONS TO FINANCIAL INSTITUTIONS

a. Collaborate with Green Business Incubators and Multilateral Organizations

Banks can partner with existing green business incubators or establish their own whiles collaborating with multilateral organizations to create a comprehensive support ecosystem. These incubators would provide SMEs with access to specialized mentorship, technical expertise, networking opportunities, and shared resources. By nurturing a community of like-minded SMEs, banks can facilitate peer learning and knowledge-sharing, accelerating the adoption of sustainable practices.

Exploring partnership with multilateral organizations, such as the European Investment Bank (EIB), to mobilize funds for green initiatives. Collaborative efforts can enable the provision of significant financial support to SMEs in their sustainability efforts.

b. Develop an "Environmental Credit Scoring Model"

In collaboration with environmental experts, Ghanaian banks should design an innovative credit scoring system that incorporates environmental and sustainability factors. This model would assess SMEs' environmental impact, energy efficiency, waste management practices, and commitment to sustainable supply chains. The environmental credit score would provide a comprehensive view of SMEs' contribution to sustainability, enabling banks to offer customized financing terms that reflect their eco-friendly efforts.

The Banks can then tailor financial incentives like ING Bank's approach of linking interest margins to sustainability performance indicators, such as ESG scores and tailored sustainability KPIs, provides a compelling example. The banks can design financial products that incentivize businesses to improve their environmental and social impact. Offering preferential terms to SMEs with strong sustainability performance can encourage more companies to adopt green practices.

c. Work with Industry Experts to Create Risk Assessment Guidelines

Banks should collaborate with experts in sustainable development, environmental impact assessment, and climate risk analysis to develop standardized guidelines for assessing the risks associated with green projects. These guidelines would provide banks with a clear framework to evaluate the feasibility, environmental impact, and long-term sustainability of SMEs' initiatives. By incorporating industry-specific insights, banks can make informed lending decisions that align with sustainable finance objectives enabling banks to offer customized financing terms that reflect their eco-friendly efforts.



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