



**IFAD**

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**REPORT AND RECOMMENDATION OF THE PRESIDENT**

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

**REPUBLIC OF GHANA**

FOR THE

**RURAL FINANCIAL SERVICES PROJECT**

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## CURRENCY EQUIVALENTS

Currency Unit	=	Cedis
USD 1.00	=	GHC 3 600
GHC 1 000	=	USD 0.28

## WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m <sup>2</sup> )	=	10.76 square feet (ft <sup>2</sup> )
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

## ABBREVIATIONS AND ACRONYMS

ADB	Agricultural Development Bank
AfDB	African Development Bank
BSD	Bank Supervision Department
CBOs	Community-based Organizations
CGAP	Consultative Group to Assist the Poorest
CPE	Country Portfolio Evaluation
DANIDA	Danish International Development Assistance
ESAF	Enhanced Structural Adjustment Facility
FSAs	Financial Services Associations
GHAMFIN	Ghana Microfinance Network
GTZ	German Agency for Technical Cooperation
KfW	Kreditanstalt für Wiederaufbau (German Credit Institute for Reconstruction)
IDA	International Development Association (World Bank Group)
LACOSREP	Land Conservation and Smallholder Rehabilitation Project
M&E	Monitoring and evaluation
MOF	Ministry of Finance
MOFA	Ministry of Food and Agriculture
NGOs	Non-governmental organizations
PCU	Project Coordination Unit
PIM	Project implementation manual
REP	Rural Enterprises Project
RFID	Rural Finance Inspection Department
RMCs	Regional Microfinance Clusters
RTIP	Root and Tuber Improvement Programme
SCIMP	Smallholder Credit, Input Supply and Marketing Project
SHGs	Self-Help Groups
SRDP	Smallholder Rehabilitation and Development Programme
UWADP	Upper West Agricultural Development Project
VIP	Village Infrastructure Programme
VODARP	Volta Region Agricultural Development Project

## GOVERNMENT OF THE REPUBLIC OF GHANA

### Fiscal Year

1 January - 31 December



## MAP OF THE PROJECT AREA



GHANA

RURAL FINANCIAL SERVICES PROJECT



 Rural Financial Services Project (countrywide)

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Source: IFAD

*The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.*



**REPUBLIC OF GHANA**  
**RURAL FINANCIAL SERVICES PROJECT**  
**LOAN SUMMARY**

<b>INITIATING INSTITUTION:</b>	IFAD
<b>BORROWER:</b>	Republic of Ghana
<b>EXECUTING AGENCY:</b>	Bank of Ghana
<b>TOTAL PROJECT COST:</b>	USD 22.9 million
<b>AMOUNT OF IFAD LOAN:</b>	SDR 8.2 million (equivalent to approximately USD 11.0 million)
<b>TERMS OF IFAD LOAN:</b>	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
<b>COFINANCIERS:</b>	- African Development Bank (AfDB) - International Development Association (IDA)
<b>AMOUNT OF COFINANCING:</b>	- IDA: USD 5.1 million - AfDB: USD 5.0 million
<b>TERMS OF COFINANCING:</b>	To be determined
<b>CONTRIBUTION OF BORROWER:</b>	USD 1.2 million
<b>CONTRIBUTION OF BENEFICIARIES:</b>	USD 0.6 million
<b>APPRAISING INSTITUTION:</b>	World Bank/IFAD/AfDB
<b>COOPERATING INSTITUTION:</b>	IDA



## PROJECT BRIEF

**Who are the beneficiaries?** Poverty in Ghana is still largely a rural phenomenon accounting for more than 70% of national poverty. The project will therefore target rural people, mainly smallholders, near-landless farmers, women in general, as well as woman-headed households. An estimated 3.7 million Ghanaians constitute this group. The beneficiaries include those “at risk” from malnutrition, ill health and a generally low quality of life. Women play an important role in rural households, and compared to their male counterparts, they bear a disproportionate share of the pain and stress that result from food insecurity. A major focus of the project will therefore be on women. Target clientele also include micro- small and medium entrepreneurs who have little or no access to mainstream financial services. It is estimated that as a result of the project, an additional 330 000 households will benefit from formal and informal financial services and products. The total number of additional women participants is estimated at 200 000.

**Why are they poor?** Rural poverty in Ghana, as elsewhere, is a dynamic condition affecting the entire community, especially the vulnerable groups. The most consistent causes of poverty are lack of resources, lack of access to community assets, and non-utilization of social/kinship networks and other services for savings, credit and other development purposes. Also, the rural sector is largely dominated by agriculture, which remains severely constrained by poor infrastructure, limited use of improved production processes, and poor support services including rural financial services. As a result, the food-producing sector has been stagnating in recent years, with production failing to keep up with population growth. All this is very damaging to the poor, and particularly to rural women and children as male family members outmigrate in search of work opportunities.

**What will the project do for them?** The project will seek to promote growth and reduce poverty by deepening and broadening financial intermediation in rural areas. It will focus on rural financial institutions in an integrated and holistic manner. The proposed interventions are targeted at the disadvantaged segments of the rural population, mainly women, and include: establishing an apex structure for the network of rural banks, restructuring and strengthening the rural banks, and investing in activities to link informal financial entities more effectively to the formal sector, mainly women. Access to financial services by the large rural population will also be improved, and the capacity of the constituent stakeholders strengthened. In addition, the project will test pilot initiatives leading to the development of new and innovative instruments for serving rural disadvantaged groups (including women), promoting group formation and empowerment, and disseminating best practices in rural and microfinance.

**How will beneficiaries participate in the project?** The project will help beneficiaries to identify, screen, implement and evaluate savings and credit schemes according to accepted priorities, criteria and procedures. The thrust of the future support will be to inject more participation into rural financial services, thus building an accrued sense of ownership among the final users. The project will also strengthen linkages between informal and formal institutions and develop innovative products and instruments suitable for the needs of rural clients.

**How was the project formulated?** Project formulation has been highly participatory with substantial contributions from government staff, rural banks, beneficiaries, and other local resources such as non-governmental organizations, traditional leaders and the private sector. The project is also in direct response to the request made by rural banks to provide institutional support to strengthen their operational effectiveness. There was also significant donor consultation, with the active participation of IDA, the International Monetary Fund, the African Development Bank, the German Agency for Technical Cooperation, and the Danish International Development Assistance.



**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD  
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE  
REPUBLIC OF GHANA  
FOR THE RURAL FINANCIAL SERVICES PROJECT**

I submit the following Report and Recommendation on a proposed loan to the Republic of Ghana for SDR 8.2 million (equivalent to approximately USD 11.0 million) on highly concessional terms to help finance the Rural Financial Services Project. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the International Development Association (IDA) (World Bank Group) as IFAD's cooperating institution.

**PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY<sup>1</sup>**

**A. The Economy and Agricultural Sector**

1. Ghana is classified as a low-income, food-deficit country with a per capita gross domestic product (GDP) of USD 446 in 1998. The inappropriate macroeconomics policies of the 1960s resulted in a rapid deterioration of the economy during the 1970s, and by 1982 it had virtually collapsed. The year 1983 marked the inception of the economic recovery programme with its related structural adjustment programmes. The Ghanaian Government is committed to pursuing adjustment. It places a strong emphasis on continuing economic liberalization, revitalization of the private sector, and decentralization. In its attempt to find solutions to long-term post-structural adjustment problems, the Government launched its Vision 2020 document in 1995. The goal of the prospective plan for national development is the transformation of Ghana from a poor low-income country into a prosperous middle-income country by the year 2020. Signs of economic improvements are starting to appear although inflation remains a problem. Exchange rates have depreciated in parallel to consumer price increases. Between 1992 and 2000, the exchange rate against the United States dollar has depreciated from GHC 440 to 3 600.

2. Ghana has a well-established public administration, an expanding private sector, and a substantial number of informal associations, community groups and non-governmental organizations (NGOs), which places the country in a better developmental position than that of many other sub-Saharan African countries. From the late 1980s, the Government began implementing a decentralization policy for government structures, entrusting development activities to its ten administrative regions. These regions are further subdivided into 110 districts, of which 103 are rural.

3. The agricultural sector remains the dominant sector of the Ghanaian economy, contributing about 40% of GDP and about three quarters of export earnings. Agriculture is the main source of livelihood for about 60% of the labour force. Cocoa is an extremely important foreign exchange earner, second only to gold. The small industrial sector depends on agriculture as a source of raw materials. Ghana's agricultural growth between 1988 and 1998 averaged 2.7%, which is below its average population growth of 3.1%. Although agricultural growth in 1998 was 5.3%, overall food production remains in deficit. Agriculture is predominantly smallholder, traditional and based on rainfed farming. The lack of access to rural financial services for input supply, processing and trade remains a key constraint to improved economic performance in the agricultural sector.

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<sup>1</sup> See Appendix I for additional information.





## **B. IFAD's Strategy for Collaboration Based on Experience from Lessons Learned**

4. IFAD has financed nine projects in Ghana thus far, for a total of approximately USD 102 million (SDR 77 million) in loans and grants. Of the nine projects, five are focused on agricultural development, two on rural development and one on credit; the last is a programme loan. IFAD's first four projects – the Volta Region Agricultural Development Project (VODARP); the Smallholder Rehabilitation and Development Programme (SRDP); the Upper-East Region Land Conservation and Smallholder Rehabilitation Project (LACOSREP); and the Smallholder Credit, Input Supply and Marketing Project (SCIMP) – were closed in 1988, 1995, 1997 and 1998, respectively. Five projects are ongoing: the Rural Enterprises Project (REP); the Upper West Agricultural Development Project (UWADP); the Village Infrastructure Programme (VIP), initiated by the World Bank and cofinanced by IFAD and the German Credit Institute for Reconstruction (KfW); the Root and Tuber Improvement Programme (RTIP); and LACOSREP II, which has just begun to implement its activities.

5. Over 30% of the IFAD portfolio to date has been allocated to three projects (SRDP, LACOSREP and UWADP). The transitional zone, where IFAD strategy addressed both poverty and food security issues, has received about 33% of the allocations. The balance was allocated to VODARP, which covered parts of all the three zones of Ghana, and the recent RTIP and VIP projects, which have national coverage. Household food insecurity and rural poverty have been addressed by IFAD investments designed to boost the purchasing power of rural households to buy food staples and essentials through small-scale rural enterprises (REP) or by specific income-generating activities for rural women (SRDP, SCIMP, LACOSREP and UWADP). SCIMP, which closed in December 1998, focused on microlending from the Agriculture Development Bank (ADB) and from rural banks for small-scale on-farm and off-farm income-generating activities, with particular emphasis on rural women.

### **IFAD's Strategy**

6. IFAD's strategy is being systematically implemented in Ghana. The Office of Evaluation and Studies undertook a country portfolio evaluation in 1996 at the request of the Executive Board of IFAD, and a country strategic and opportunities paper prepared in 1998 drew heavily on this evaluation to confirm the operational thrusts. Five elements are at the core of the strategy: (i) improving opportunities for farm and non-farm income-generation among the rural poor; (ii) alleviating poverty, improving the quality of rural life and devising more effective ways of providing support services that target and benefit poverty groups; (iii) sustainably improving smallholder food production and food security while simultaneously addressing problems of environmental degradation; (iv) providing specific, targeted support to rural women; and (v) working with and through NGOs, community-based organizations (CBOs) and local government agencies, especially at district and unit level, in line with the Government's decentralization policies. In addition, IFAD seeks to empower potential beneficiaries through the establishment of participatory mechanisms for group activities and support to grass-roots organizations, particularly women's groups. All current and proposed IFAD projects in Ghana focus on: (i) food crops; (ii) smallholders as a target group, including support for rural women; (iii) participatory group development; (iv) small-scale savings mobilization and credit for on- and off-farm activities, with emphasis on the informal financial sector; (v) village-level rural infrastructure; and (vi) sustainability and replicability of the activities funded.

### **Lessons Learned**

7. Over the past 20 years, IFAD has supported the rural credit sector, mainly through cooperation with and support to ADB and rural banks. Throughout this period, IFAD undertook three project evaluations and one country portfolio evaluation. Evaluation findings in Ghana, as in other countries



in the region, have indicated that the impact of credit activities provided by formal institutions can increase significantly if the institutional capacity of the formal institutions is strengthened. Also, the operational effectiveness of the sector is reduced when there is only limited capacity and experience to adjust lending procedures to suit smallholder food producers and the rural poor. IFAD's experience in Ghana has also evidenced the advantages that rural banks have in terms of their rural base, broad-based ownership confined to rural communities, and familiarity with prospective clients and local conditions. These characteristics place rural banks in a better position to provide cost-effective and efficient financial services to small-scale rural clients. The barriers between rural banks and their rural clientele therefore need to be broken down. There is also a need to transform the structure and approach of rural banks to ensure that they expand their outreach and coverage by forging effective formal and informal financial-sector linkages. Moreover, in order to promote the cost-effective delivery of financial services at the village level, in particular in areas lacking banking facilities, innovative products and services need to be developed that are sustainable and seek to address certain specific challenges, namely, proximity, self-management and self-reliance, and access by the poor.

8. Another lesson of implementation experience is that the formation, animation and training of self-help groups (SHGs) of manageable size (5-20 members) is the most cost-effective and viable way of extending formal financial services to small-scale rural operators, including women. Experience also confirms the need to make a clear distinction between financial intermediation by rural banks and the role of NGOs in providing "social intermediation", in the form of training or group formation, for example, to facilitate access of the poor to financial services (and better management of their businesses and finances). Separating financial and social intermediation (rather than combining them in one institution, as some NGOs do) can make it easier to discern where financial self-sufficiency is an achievable objective. Also, when linking rural banks to SHGs that are facilitated by NGOs, one should not assume that almost any type of SHG will be a good rural-bank client. It is important to understand the methodology of each SHG's financial arrangements. It is also important to disengage the NGO as soon as groups are viable, although for some, it may take a year of animation and savings mobilization before they are really ready for credit. On the other hand, there is a danger of pushing groups too fast.

9. Experience has shown that identifying beneficiaries through their individual situations is difficult in practice. One way to increase the impact of project benefits to the poor is geographical targeting, where a project focuses on the physical areas where the majority of the poor live. In these areas, informal and, wherever feasible, formal financial institutions should be accessible to all segments of the rural population, including women and other disadvantaged groups, as users or user-owners. On completion of SCIMP in 1998, for example, both the Government and IFAD indicated their willingness to continue collaborating in supporting the provision of financial and related non-financial services in rural areas. The agreed objective was to continue to promote financial services that meet the needs of the rural poor.

### **Opportunities for Strategic Linkages with Other Bilateral and Multilateral Donors**

10. IFAD is particularly concerned about the need to increase the opportunities for strategic linkages with other donors, and to reach a common and broad understanding of development assistance to the country. To that effect and with regard to rural finance, agricultural research and extension, natural resources management, and the development of basic infrastructure, IFAD has had the opportunity to discuss areas of strategic alliances and cooperation with the World Bank and has reached several important agreements. Currently the World Bank supervises both VIP and RTIP, and it is the main financier of the former. A framework for the integration of donor support – the African Development Bank (AfDB), the Danish International Development Assistance (DANIDA), the German Agency for Technical Cooperation (GTZ) and the World Bank – is pursued under the government's Rural Financial Services Project (RFSP) to reinforce and complement IFAD activities



in rural finance and to avoid any overlapping and duplication of efforts within the context of future interventions. The Food and Agriculture Organization of the United Nations is regularly involved in the inception, formulation and appraisal of IFAD-funded projects in Ghana. IFAD also participates in the United Nations Development Assistance Framework/Comprehensive Development Framework process. In 1999, IFAD participated in the Consultative Group meeting held in Accra to Assist the Poorest (CGAP). Also in 1999, IFAD took part in an International Monetary Fund (IMF) mission to review the enhanced structural adjustment facility (ESAF), with particular attention on rural financial-sector development. One result of this mission, and a concrete example of the partnership, was a joint World Bank/IMF/IFAD paper on rural banking. Its central objective was to document what is being done in this area, which has linkages not only to the overall performance of agriculture (and thus growth), but also to poverty alleviation, which is central to IMF/ESAF programmes. It is also a way for IMF, the World Bank and IFAD to share information so as to improve the selection of key milestones for development. The document indicated the next steps to complement, improve and strengthen rural financing, including the new initiative that IFAD, the World Bank and AfDB are planning. The document was well received and was submitted to the IMF Executive Board as a selected issues document.

### **Ghana's Policy for Poverty Eradication**

11. High levels of rural poverty and its persistence are of major concern to the Government. Its recent agricultural policy statements have emphasized measures for rural poverty alleviation, particularly in the most affected northern regions. Broad-based social and rural development and wider access to basic social services and infrastructure, it is argued, are critical to achieving a better quality of life for rural Ghanaians. Rural development is a declared priority because 80% of the population live in rural areas, where the worst problems of deprivation are found and women are particularly underprivileged. The Government's national framework for poverty reduction and development of human and physical resources in rural areas envisages promoting sustainable economic growth, especially through activities in agriculture, village infrastructure and rural financial services. With substantial ongoing investments in infrastructure and services, the lack of a strong rural financial sector is the critical "missing link" of an integrated rural development strategy, and its lack continues to stifle private-sector initiatives in the rural economy. The rural sector's share of total formal credit was a mere 8% in 1999. In addition, domestic commercial banks have steadily withdrawn from lending to the rural sector. The existing 110 small, community-owned rural banks and the many small informal microfinance institutions are potentially important resources for providing part of this "missing link". These entities are, however, weak and fragmented, and they operate with outdated technologies and under residual policy constraints that need to be urgently addressed.

### **Project Rationale**

12. In order for the incidence of rural poverty to be reduced, the real disposable income levels of the rural poor, including women, need to increase on a continuous basis through productive and profitable self-employment or employment in small-scale agricultural and non-agricultural activities. Access to adequate microfinance, which is beyond the purview of conventional banking and which comprises both formal and informal financial institutions, is an essential tool to enhance the potential of informal family businesses and to promote the gainful employment of the low-income rural population. Despite the remarkable vibrancy of the informal financial sector and its reputation as a seedbed of Ghanaian indigenous entrepreneurship, the sector has remained largely marginalized in terms of government policies, donor support and sustainable support institutions and services. Moreover, its potential to contribute to the growth of rural incomes is not being captured. Individually, informal entities are small and lack impact, particularly because of their low asset base. Their savings mobilization and lending activities are often not sustainable over the long-term. They do, however, offer a range of services that are flexible and responsive to the needs of the rural poor,



including women. They, therefore, represent a key to the viable operation and greater effectiveness of Ghana's rural banking system through increased linkages between the two. Developing and strengthening strategic linkages between informal microfinancial intermediaries and rural banks is also logical because of the latter's advantages of strategic locations, community-ownership focus on rural clients, and community identity and patronage.

13. In Ghana, as in many other parts of the world, the formal banks have been unable to serve rural areas and the rural poor adequately. In these areas, the transaction costs associated with banking are high, and the rural banks are often not capable of offering services that respond to the needs of the poor. Furthermore, many development initiatives have reached only a minority of the rural population and have often favoured larger borrowers. Although the large rural borrowers contribute to minimizing banking risks, many rural banks remain weak and are constrained by poor operational procedures and limited internal controls. Those weaknesses are compounded by residual policies, such as restrictive geographical area coverage and high secondary reserves requirements, that impede efficiency. Based on international best practices and the lessons learned from past operations in Ghana, it is evident that both formal and informal financial institutions need to be strengthened as they currently operate with outdated technologies and under residual policy constraints, two issues that need to be urgently addressed. Efforts need to be made to increase depositors' confidence and willingness to transact business with rural banks. Currently, major delays are experienced with cheque-clearing; the quality of the supply of specie (coin and paper money) to rural banks is poor; and reporting is cumbersome and costly. The absence of an effective body to provide financial, managerial and technical support to rural banks has been identified as a key constraint. The establishment of such a body has been investigated and is deemed feasible as a future activity. It is proposed that an apex bank be created to support individual rural banks with management, guidelines and procedures, audits and inspections, electronic reporting and effective oversight of rural banking activities. The creation of an apex bank will lead to a reduction in reporting costs (travel from rural towns to the Bank of Ghana in Accra) and aid in establishing linkages with the informal sector. An apex bank could perform various functions that are beyond the capacity of rural banks in order to enable the latter to serve their clients fully. The government has, therefore, attached a high priority to strengthening the rural microfinance continuum, building on strong community ownership and participation, promoting effective linkages between the informal and formal sectors, and integrating gender considerations into microfinance programmes to improve the economic status of women.

## **PART II - THE PROJECT**

### **A. Project Area and Target Group**

14. **Project area.** The project will be national in scope but focused on specific strata of the rural financial sector. Special efforts will be made to support informal financial-sector institutions operating in resource-deficit communities and districts.

15. **Target group.** Appropriate and effective targeting mechanisms will be developed to ensure that rural groups and associations, including women as well as the poorest segments of the communities, are not overlooked and project benefits are not captured by a few people with power and access to information and financial services. Therefore, sustainable rural development activity in Ghana will require that the rural banks and informal financial institutions become much stronger and more responsive to the needs of rural clients. Of equal importance, rural clients and their informal financial entities need to be empowered to maximize opportunities from a diversified range of services. There is also a need to give systematic thought to the roles and responsibilities of men and women and the ways in which gender and development considerations positively or negatively affect the capacities of each to participate in the project, while ensuring an equitable distribution of its benefits. Given their strategic locations throughout Ghana, their focus on rural clients and their community shareholders, rural banks are strategically placed to facilitate the transfer of financial



services to rural communities, which are virtually excluded because of their disadvantaged socio-economic status, e.g., very low levels of capital, economic assets, education and information.

## **B. Objectives and Scope**

16. The proposed rural financial services project supports the Government's efforts to deepen and broaden rural financial services as part of its strategy of accelerated growth and economic development, particularly in rural areas. The project is conceived as a financial-sector capacity-building programme. The focus will be on improving access to financial services by the large rural population, especially women; building the capacity of the constituent stakeholders; and instituting the regulatory and policy changes and reforms needed to enhance the efficiency of the rural financial system. The project will cover the continuum of institutions comprising the rural financial sector in Ghana and will do so in an integrated and holistic manner in order to maximize synergy, complement ongoing activities, and make best use of existing resources. The interventions will be targeted at the disadvantaged segments of the rural population, who are mainly women, and will include establishing an apex structure for the network of rural banks, restructuring and strengthening rural banks, and investing in activities to link informal financial entities to the formal sector more effectively.

## **C. Components**

### **Capacity-Building – Informal Financial Sector**

17. This component will focus on strengthening informal financial entities by developing and organizing groups and associations, and training them in the use of a participatory approach to development. It will develop and test various instruments and products, such as financial services associations<sup>2</sup> (FSAs), and will foster stronger linkages between the formal rural banks and informal financial-sector entities. In addition, it will promote sharing of best practices, including those from within the subregion; facilitate the input of NGOs as partners in rural financial-sector institutions; and remove any administrative and/or regulatory impediments to achieving effective integration. Activities under this component will build upon existing initiatives such as the Ghana microfinance network (GHAMFIN), *susu* (informal collectors) groups, women's banking initiatives, cooperatives and credit unions, NGOs and other groups. To generate innovative ways of serving rural clients and of improving the information asymmetry between the informal and formal financial-sector entities, the project will finance pilot activities, which will focus on new approaches such as handling risks associated with rural investments, building and improving group dynamics, and packaging financial services suitable to small rural entrepreneurs. Activities will be demand-driven, and funded as mini-contracts. The component will complement and support ongoing capacity- and institution-building efforts by GHAMFIN, the African Regional Agricultural Credit Association (AFRICARE), CGAP, AfDB's African Development Fund (ADF) Microfinance Initiative for Africa (AMINA) programme and the United Nations Development Programme, among others. During implementation, particular attention will be given to exploring the potential of the daily deposit collectors (and their association of deposit collectors), *susu* clubs and FSAs to evolve into registered bodies and then, if feasible, upgraded and mainstreamed into regulated institutional financial intermediaries. Rural banks will also be supported in establishing focal points for dealing with informal-sector clients. Another important dimension of this component will be the packaging of formal-sector activities so that they can be utilized more efficiently by informal-sector actors.

### **Capacity-Building – Rural Banks**

18. The activities under this component will involve restructuring rural banks and strengthening their operational effectiveness. This objective will be achieved by strengthening their human resource capacities in management, project appraisal and other areas; reinforcing internal controls to provide

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<sup>2</sup> This informal-sector model developed by IFAD is owned and operated by villagers and is based on savings (or equity) redeployed in the village in the form of small loans to members.



greater transparency in conducting bank business; and enhancing efficiency of intra-bank services, such as cash movements. Also, linkages among the different rural banks, and between individual rural banks and their certified agencies, will be strengthened. Support will also be provided to the rural banks' management information system and their reporting system in order to ensure internal management of the rural banks and timely reporting and monitoring of their activities, by the Bank of Ghana. The training activities will be linked to the existing DANIDA training programs, so as to avoid duplication and to utilize existing facilities. This component will also address and remove residual policies that may impede the efficiency of rural banks, such as those restricting geographical area of coverage and those relating to secondary reserve requirements.

### **Institution-Building – Apex Bank**

19. This component will: (i) finance the technical assistance needed to set up, train and operationalize an apex bank for the network of 110 rural banks, including the key units/departments of the apex bank; (ii) provide support for initial capacity-building building activities, logistics (such as facilities and communications) and other start-up activities; (iii) develop operational procedures and policies for the apex bank consistent with the requirements of the banking law (PNDCL 225); and (iv) finance short-term technical assistance of trained and experienced international experts to assist the rural banks in establishing and operating the apex initiative.

### **Institutional Support to Bank of Ghana/Ministry of Finance (MOF)**

20. This component will provide support to the Bank of Ghana, notably the banking supervision department (BSD) and rural finance inspection department (RFID), to upgrade staff skills and improve technologies. For the BSD, in particular, this support will be critical in enabling it to modify its current approach to the supervision of rural banks. More emphasis will be placed on standardization and electronic reporting, retrieval and analyses of returns, and more targeted supervision of banks based on assessment of the returns submitted prior to going to the field. Additionally, establishing a credible database will facilitate better pre-supervision preparation, which will shorten the time spent by BSD staff at each rural bank. A study will also be undertaken to help clarify the future strategic role of the ADB in the rural finance sector. Under this component, support will also be provided to the RFID to strengthen its capacity for rural finance policy and strategy formulation, as well as for programme implementation and monitoring. Also, support to the MOF will ensure continuity in ongoing rural microfinance initiatives such as the GHAMFIN. Project management and implementation under the component will enable the RFID to implement, monitor and evaluate project activities effectively, including financial management, reporting and audits (by independent firms).

## **D. Costs and Financing**

21. The total project cost, including duties, taxes and contingencies, is estimated at USD 22.9 million over a period of six years, of which USD 9.0 million (39%) will be in foreign exchange. Price and physical contingencies are estimated at USD 1.3 million and 1.9 million, respectively. Project costs by component are summarized in Table 1. IFAD, IDA, AfDB, the Government and beneficiaries will finance the project with IFAD and IDA jointly cofinancing three components. The IFAD loan of approximately USD 11.0 million, equivalent to 47.9% of total project costs, will be disbursed over a six-year project implementation period. IDA and AfDB credit (USD 5.1 million and 5.0 million, respectively) will finance 44.2% of the total project costs, including contingencies. The Government and the Bank of Ghana will finance USD 0.7 million and USD 0.5 million respectively. Beneficiaries will finance USD 0.6 million. The financing plan by financier and by component is presented in Table 2.

**Table 1: Summary of Project Costs <sup>a</sup>**  
(USD '000)

Components				%	% Total
	Local	Foreign	Total	Foreign Exchange	Base Costs
1. Capacity Building – Informal Financial Sector	4 883	553	5 436	10	27
2. Support to Rural and Community Banks (AfDB)	2 502	1 812	4 314	42	22
3. Institution Building - Apex Bank	3 733	4 960	8 693	57	44
4. Institutional Support - BOG/MOF	926	470	1 395	34	7
<b>Total Base Costs</b>	<b>12 044</b>	<b>7 794</b>	<b>19 838</b>	<b>39</b>	<b>100</b>
Physical Contingencies	1 081	779	1 861	42	9
Price Contingencies	846	417	1 263	33	6
<b>Total Project Costs</b>	<b>13 971</b>	<b>8 991</b>	<b>22 962</b>	<b>39</b>	<b>116</b>

<sup>a</sup> Discrepancies in totals are due to rounding.

**Table 2: Financing Plan <sup>a</sup>**  
(USD '000)

	Government		Beneficiaries		Bank of Ghana		IDA		IFAD		AfDB		Total		For. Exch. Taxes	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
1. Capacity-Building Informal Financial Sector	213	3.3	585	9.2	102	1.6	1 863	29.2	3 625	56.8	--	--	6 388	27.8	646	5 529	213
2. Capacity-Building Rural Banks (AfDB)	48	0.9	-	-	-	-	--	-	-	-	5 011	99.1	5 059	22.0	2 086	2 925	48
3. Institution Building - Apex Bank	270	2.7	13	0.1	132	1.3	2 903	29.4	6 569	66.4	--	--	9 886	43.1	5 720	3 896	270
4. Institutional Support - BOG/MOF	217	13.3	13	0.8	223	13.7	367	22.6	808	49.6	--	--	1 628	7.1	539	882	208
<b>Total Disbursement</b>	<b>748</b>	<b>3.3</b>	<b>610</b>	<b>2.7</b>	<b>457</b>	<b>2.0</b>	<b>5 133</b>	<b>22.4</b>	<b>11 002</b>	<b>47.9</b>	<b>5 011</b>	<b>21.8</b>	<b>22 962</b>	<b>100.0</b>	<b>8 991</b>	<b>13 233</b>	<b>738</b>

<sup>a</sup> Discrepancies in totals are due to rounding.





### **E. Procurement, Disbursement, Accounts and Audit**

22. All works and goods financed under the IFAD loan and/or IDA credit will be procured following the project procurement procedures contained in the project implementation manual (PIM) and according to the World Bank procurement guidelines. The PIM will be approved by IDA and IFAD. Procurement for civil works costing USD 100 000 or less per contract up to an aggregate of USD 460 000 will be approved by the project steering committee, and will follow the local shopping procedures with at least three quotations from qualified domestic contractors. Contracts in excess of USD 100 000 will follow national competitive bidding (NCB) procedures. Contracts for vehicles and equipment exceeding USD 100 000 will follow international competitive bidding (ICB) procedures. Contracts of goods and services available locally costing between USD 30 000 and 100 000 up to an aggregate amount of USD 250 000 will be procured through NCB, with prior review by IDA for amounts above USD 75 000.

23. In order to facilitate project implementation, a Special Account with an authorized allocation of USD 800 000 will be opened in the Bank of Ghana on terms and conditions satisfactory to the Fund to pre-finance IFAD's share of eligible expenditure. The initial deposit to the Special Account will be limited to an amount of USD 500 000. A Project Account with an initial deposit of USD 100 000 will be set up in the Bank of Ghana to receive the Government's counterpart funds. This account will be replenished quarterly in advance.

24. **Auditing.** The audit of project-related records and accounts, including the Project Account and the Special Account, will be undertaken in accordance with accounting principles consistently applied by independent auditors acceptable to IDA and IFAD. The audit, which should include a separate opinion on the statement of expenditures (SOE) and Special Account, will be submitted to IDA and IFAD within six months of the end of each government financial year until completion of the project.

### **F. Organization and Management**

25. The project will be implemented by the Bank of Ghana's RFID. The RFID has increased its capacity in recent years to manage similar operations, beginning with the World Bank-sponsored Rural Finance Project, which closed in 1995. The scope of responsibilities of the RFID has recently been reduced with the transfer of its management audit functions to the BSD and a clearer focus on policy and strategy development. This sharpened mandate now better prepares the RFID to implement this programme aimed at institutional and policy reforms and capacity-building of the rural finance sector. Project implementation will be mainstreamed in the RFID. As the RFID does not have adequate capacity for many of the activities envisioned, many of which are complex, the staff will receive on-the-job training. Financial management and procurement activities will be expedited through a project accountant and procurement specialist selected from within the Bank of Ghana. All these staff will receive supplementary allowances to enable them to perform these additional duties. Overall policy guidance of the project will be the responsibility of a policy steering committee comprising one representative each of the Bank of Ghana, MOF, the Ministry of Food and Agriculture (MOFA), the association of rural banks, GHAMFIN and an apex informal group. The project steering committee will be chaired by the Governor, Bank of Ghana.

26. The apex bank will have its headquarters in Accra, but it will decentralize most of its activities. This will enable it to reach out effectively to all rural banks within the country. In order to achieve this objective, the project will support the creation of regional clusters in Accra, Bolgatanga, Kumasi, Sunyani and Takoradi. These centres will be provided with trained manpower, equipment and logistics to enable them to carry out most of the apex bank's field duties effectively and efficiently.





These centres will also make it easier for the rural banks to deal with the apex bank by reducing their transaction costs. In addition, the project will support the creation of regional microfinance clusters (RMCs). Initially RMCs will be housed in the regional apex clusters, though as more are created as the project progresses other arrangements will be found. RMCs will help with the linkages between the informal finance sector and the rural banks.

27. **Implementation manual.** A project implementation manual has been prepared, and this will be a living document describing the agreed procedures and criteria for the implementation of the various project interventions. During project start-up, priority tasks are likely to be the joint preparation and (later) implementation of annual workplans and budgets, including procurement contracting, training programmes, and plans for monitoring and supervision. Special attention will be given to identifying the level of outputs that can realistically be achieved in six years, and specifying achievement milestones through the life of the project. Attention will be drawn to critical assumptions that need to be monitored. To tie all these elements together, the implementation team will build on the logframe matrix developed during appraisal.

### G. Monitoring and Evaluation

28. The project coordination unit (PCU) will monitor and evaluate the performance of the apex bank and rural banks. The microfinance development specialist in MOF, with support from GHAMFIN and the microfinance regional clusters, will be responsible for monitoring and evaluation (M&E) of the CBOs, NGOs and informal activities supported by the financial sector. They will (i) assess and monitor the extent to which formal rural financial institutions are able to link with informal financial intermediaries and reach the target groups, particularly women and the poorest segments of the rural population; (ii) identify constraints being faced by potential beneficiaries in gaining access to formal rural microfinancial services; and (iii) evaluate the impact of microfinancing on the participation of private smallholders and rural producers, particularly women, in farm and non-farm income-generating activities as well as in mobilizing savings.

### H. Economic Justification

29. **Financial benefits.** The project is an important vehicle for the Government and the other internal stakeholders (including the Bank of Ghana and rural banks, informal financial-sector actors) to implement a series of well-coordinated and targeted reforms of the rural financial sector aimed at inducing an acceptable level of efficiency in rural financial intermediation in support of growth and poverty reduction. A cost-effectiveness analysis was undertaken and focused on: (i) the expected reduction in transaction costs of service delivery; (ii) the reduction in response time to the needs for rural depositors and borrowers; and (iii) the overall quality of the rural financial-sector portfolio attainable through training and investments in improved internal control and technology.

30. **Effectiveness analysis and impact.** An additional 330 000 rural households will benefit through access to formal financial services and products. Of these, about 120 000 will be reached through 8 000 SHGs organized and trained under the project over the next six years in collaboration with NGOs. Another 195 000 rural households are expected to be reached through cooperating arrangements with about 650 *susu* collectors. In addition, some 15 000 households will be serviced by FSAs. Based on past experience under the IFAD-financed SCIMP project, about 60% of the SHGs will be women's groups, while 70% of *susu* collectors' clients will be women. The total number of women participants is therefore estimated to be in excess of 200 000. At an average deposit rate of GHC 1 000 per day per *susu* client, incremental rural savings mobilized by *susu* collectors alone is conservatively estimated as GHC 6 billion (USD 1.75 million) per month. Given the formal arrangements between the rural banks and these informal collectors, these deposits will provide additional sources of funds for investment at the local level.



31. **Efficiency measures.** With better training and updating of internal control and operational procedures, the turnaround will be shortened for all categories of rural-bank clients. The time needed for cheque-clearing with the commercial banks, now averaging from 20 to 30 days, will fall to less than a week, with rural bank-to-rural bank cheques being cleared within the apex band, and rural bank-to-commercial bank cheques being cleared within the national clearing system. The quality of specie supply will be high, leading to increased depositors' confidence and willingness to transact business with rural banks. Investment in communications facilities, both to facilitate electronic reporting and to ensure effective oversight of rural banking activities, will lead to reduced reporting costs (travel from rural towns to the Bank of Ghana in Accra) and more efficient service provision. The standardized accounting and reporting formats, using the packaged software programme microbanker, for example, will enable the Bank of Ghana to identify problems early on and also to undertake speedier field supervision of rural banks. Capacity-building in agency management and improved linkage with informal sectors will lead to increased deposits in the rural banking sector. Investment in human resource development will lead to improvements in the quality of the portfolio of rural banks and in their services and risk-management capabilities. The latter is very important, as many staff of rural banks lack adequate training on investment appraisal and loan administration. The key benefits for the apex bank will be: (i) more efficient service provision to the rural banks through access to the national and regional clearing system; (ii) improved liquidity, reduced costs of transactions through timely provision of specie to member banks; (iii) greater profitability through improved investment decisions and better management of risk; and (iv) greater confidence in the rural banking sector.

### I. Risks

32. **Sustainability.** Certain design features of this project provide a high probability of sustainability. First, the holistic approach adopted allows for transmission of best practices and the building up of an initial critical mass of skilled staff. Focusing on the continuum provides broad ownership beyond the traditional stakeholder groups. The emphasis on group development and training is also essential for the sustainability of the provision of financial services by rural banks in that stakeholder groups that have been trained are more likely to be profitable and therefore will not require subsidies beyond the initial (start-up) phase. The proposed institutional reforms have been discussed with the key stakeholders, who have also seen the high financial profitability and the cost-effectiveness that they would bring to their operations. These benefits provide an important reason to adopt the reforms and an incentive to keep them on track. Additionally, it is foreseen that the apex bank can be maintained without any subsidy from government or donor support beyond the initial capital investment period. Hence, it will be financially viable.

33. **Key risks.** The main risks are: (i) *the unstable macroeconomic environment* for the apex bank. In an unstable macroeconomic environment and in a highly inflationary environment coupled with high agriculture-sector risks, rural banks prefer to hold treasury bills. While this risk is beyond the apex bank, it can be mitigated by capacity-building initiatives, which will enable rural banks to manage risks better; (ii) *lack of commitment to financial-sector reforms*. The inability to keep the financial-sector reforms on track could undermine the attainment of project development objectives. This risk is minimized by undertaking the administrative steps necessary to complete some key measures in advance, such as the granting of a license to the apex bank and agreement on reducing secondary reserves from 55 to 30%; (iii) *unclear governance relationships between the Bank of Ghana and the apex body*. The lack of clarity in governance relationships could lead to intrusion in the affairs of the apex bank by the Bank of Ghana. While the Bank of Ghana maintains oversight responsibility of all financial entities, undue interference in the operations of the apex bank will cause member banks to lose confidence in it. This risk is mitigated by approval by Bank of Ghana of the articles governing the apex bank and the granting of a special license for its operations as a quasi-central entity for the network of rural banks; (iv) *weak management of the apex bank*. Because the apex bank is a new entity, many of the staff to be recruited will have little knowledge of its



arrangements and its special legal and client status. If the management of the apex bank is weak, it will affect the entire transformation programme. This risk may be mitigated by the recruitment of long-term technical assistance to train apex bank staff; by secondment and attachments to similar apex entities such as the Rabobank; and by recruitment of very experienced managers.

### **J. Environmental Impact**

34. This is a rural finance-sector technical assistance operation focused mainly on institutional reforms and capacity-building. It therefore has no direct environmental impact and no environmental assessment is needed.

### **K. Innovative Features**

35. A number of innovative features have been built into the design of this project.

(a) *Multiple donor projects targeted at different tiers of the rural finance continuum.* Lessons from AfDB, the World Bank and IFAD-financed operations have shown the need for providing support to the rural and microfinancial sector in a holistic manner that adds value to and complements each individual donor initiative. Poorly coordinated approaches in the past have often resulted in the dissipation of scarce resources and efforts, bottlenecks in experience-sharing, institutional rigidities undermining sustainability, and overall low development impact. The approach adopted by this project is based on a coordinated programme cofinanced by the principal donors active in Ghana's rural finance sector, with each donor's participation based on its area of comparative advantage.

(b) *Capacity-building versus lines of credit.* The focus of the project is to strengthen the capacity of formal and informal financial-sector institutions for effective intermediation given the chronic weakness of the rural banking system: 24 distressed, 56 mediocre, and 52 deemed satisfactory based on a narrowly defined capital adequacy ration criterion. The issue is not a line of credit as such but appropriate sequencing of interventions that will ensure enhanced impact of the reforms. If inclusion of a line of credit is not properly sequenced, it will conflict with the core institution-building objectives of this operation, leading to a less-than-optimal impact of these reforms on the rural economy. The initial emphasis on capacity-building does not preclude all options for a resource infusion to the rural finance sector during implementation. For example, some donors will consider support for a line of credit after the initial period of reforms, and such facility could be targeted at the satisfactory rural banks, with key triggers for participation. Also, after the reforms, many commercial banks, notably the ADB, will consider wholesaling credit to the rural banks rather than maintaining non-profitable rural branches. Therefore, a short and intense period of reforms will lead to the inflow of new resources to the rural financial sector, both from external and mobilized sources. Hence, the option of including a line of credit as a part of this programme was rejected as too distractive to its core capacity-building objectives.

(c) *An apex for the rural banks.* Historically, Ghana's rural banks developed under a unit (as opposed to a branch) banking culture, whereby each bank is independently owned and managed by members of rural communities. The development of a financial entity to become the apex structure for the rural banks enhances the community-ownership structure and strengthens the service delivery focusing on decentralization of financial services and decision-making, and greater community participation in the rural development process. The apex concept builds upon both the culture and history of the rural banking sector in Ghana, which rests on a foundation of voluntary associations promoted under an association of rural banks, and was widely endorsed during project preparation by



member rural banks and during the sensitization campaigns held in Accra, Koforidua, Kumasi, Takoradi and Tamale in 1999.

- (d) *Pre-testing promising innovations.* The project will provide through GHAMFIN instruments for the implementation of pilot programmes such as FSAs on the Benin model developed by IFAD and other innovative processes and products with potential for wider replication.

### **PART III - LEGAL INSTRUMENTS AND AUTHORITY**

36. A loan agreement between the Republic of Ghana and IFAD and a project agreement between IFAD and the Bank of Ghana constitute the legal instruments for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan and project agreements is attached as an annex.
37. The Republic of Ghana is empowered under its laws to borrow from IFAD.
38. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

### **PART IV - RECOMMENDATION**

39. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of Ghana in various currencies in an amount equivalent to eight million two hundred thousand Special Drawing Rights (SDR 8 200 000) to mature on and prior to 1 May 2040 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Fawzi H. Al-Sultan  
President

## **SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AND PROJECT AGREEMENTS**

(Loan Negotiations concluded on 19 April 2000)

1. For the purposes of carrying out the project, the Government of Ghana (the Government) will make available to the Bank of Ghana (BOG) on a grant basis the proceeds of the loan under a subsidiary administration agreement to be entered into between the Government and BOG under terms and conditions satisfactory to IFAD.
2. BOG will duly perform all its obligations under the subsidiary administration agreement. The Government will exercise its rights under the subsidiary administration agreement in such manner as to protect the interests of the Government and IFAD and to accomplish the purposes of the loan. It will not assign, amend, abrogate or waive the subsidiary administration agreement or any provision thereof and will ensure that BOG will not take or concur in any action having the effect of amending, abrogating, assigning or waiving the subsidiary administration agreement or any provision thereof.
3. BOG will prepare and furnish to IFAD a project implementation manual in form and substance satisfactory to IFAD setting out details of procedures, guidelines, timetables and criteria required for the project.
4. BOG will carry out the project in accordance with the performance indicators set forth in the project agreement.
5. Throughout project implementation, RFID will open and thereafter maintain in BOG an account in cedis for project operations (the "Project Account"). The project coordinator will be fully authorized to operate the said Project Account.
6. The following are the additional conditions precedent to the effectiveness of the loan and the project agreements:
  - (a) the project steering committee shall have been duly established in a manner satisfactory to IFAD;
  - (b) RFID shall have been duly established and the project coordinator shall have been appointed in a manner satisfactory to IFAD;
  - (c) the Government shall have established the financial management system acceptable to IFAD;
  - (d) the Government shall have appointed an auditor for the purposes of auditing the records and accounts, including the Special Account, under the project;
  - (e) the Project Account mentioned under paragraph 5 above shall have been duly opened and the Government shall have deposited therein counterpart funds in cedis in an initial aggregate amount equivalent to USD 100 000.
  - (f) the loan agreement shall have been duly signed, and the signature and performance thereof by the Government shall have been duly authorized and ratified by all necessary administrative and governmental action;



ANNEX

- (g) the project agreement shall have been duly signed, and the signature and performance thereof by the Government shall have been duly authorized and ratified by all necessary administrative and corporate action;
- (h) the subsidiary administration agreement mentioned under paragraph 2 above shall have been duly signed, and the signature and performance thereof by the Government and BOG shall have been duly authorized and ratified by all necessary administrative, governmental and corporate action;
- (i) the development credit agreement shall have been executed and delivered and all conditions precedent to its effectiveness, except only the effectiveness of the loan agreement, shall have been fulfilled; and
- (j) a favourable legal opinion, issued by the Government's Attorney General Department or other legal counsel approved by IFAD, in form and substance acceptable to IFAD, shall have been delivered by the Government to IFAD.

## COUNTRY DATA

## GHANA

<b>Land area (km<sup>2</sup> thousand) 1996 1/</b>	<b>228</b>	<b>GNP per capita (USD) 1997 2/</b>	<b>390</b>
<b>Total population (million) 1997 1/</b>	<b>18.0</b>	<b>Average annual real rate of growth of GNP per capita, 1990-97 2/</b>	<b>1.4</b>
<b>Population density (people per km<sup>2</sup>) 1996 1/</b>	<b>77</b>	<b>Average annual rate of inflation, 1990-97 2/</b>	<b>29.2</b>
<b>Local currency</b>	<b>Cedi (GHC)</b>	<b>Exchange rate: USD 1 =</b>	<b>GHC 3 600</b>
<b>Social Indicators</b>		<b>Economic Indicators</b>	
Population (average annual population growth rate) 1980-97 1/	3.0	GDP (USD million) 1997 1/	6 884
Crude birth rate (per thousand people) 1997 1/	36	Average annual rate of growth of GDP 1/ 1980-90	3.0
Crude death rate (per thousand people) 1997 1/	9	1990-97	4.2
Infant mortality rate (per thousand live births) 1997 1/	66	Sectoral distribution of GDP, 1997 1/	
Life expectancy at birth (years) 1997 1/	60	% agriculture	36
Number of rural poor (million) (approximate) 1/	3.9	% industry	26
Poor as % of total rural population 1/	34.3	% manufacturing	9
Total labour force (million) 1997 1/	8.5	% services	39
Female labour force as % of total, 1997 1/	51	Consumption, 1997 1/	
<b>Education</b>		General government consumption (as % of GDP)	10
Primary school gross enrolment (% of relevant age group) 1996 1/	n.a.	Private consumption (as % of GDP)	80
Adult literacy rate (% of total population) 1995 3/	65	Gross domestic savings (as % of GDP)	10
<b>Nutrition</b>		<b>Balance of Payments (USD million)</b>	
Daily calorie supply per capita, 1995 3/	2 574	Merchandise exports, 1997 1/	1 737
Index of daily calorie supply per capita (industrial countries=100) 1995 3/	82	Merchandise imports, 1997 1/	3 295
Prevalence of child malnutrition (height for age % of children under 5) 1992-97 1/	26	Balance of merchandise trade	-1 558
Prevalence of child malnutrition (weight for age % of children under 5) 1992-97 1/	27	Current account balances (USD million)	
<b>Health</b>		before official transfers, 1997 1/	-1 114
Health expenditure, total (as % of GDP) 1990-97 1/	1.7	after official transfers, 1997 1/	- 324
Physicians (per thousand people) 1990-97 1/	0.06	Foreign direct investment, 1997 1/	130
Percentage population without access to safe water 1990-96 3/	35	<b>Government Finance</b>	
Percentage population without access to health services 1990-95 3/	40	Overall budget surplus/deficit (including grants) (as % of GDP) 1996 1/	n.a.
Percentage population without access to sanitation 1990-96 3/	45	Total expenditure (% of GDP) 1996 1/	n.a.
<b>Agriculture and Food</b>		Total external debt (USD million) 1997 1/	5 982
Food imports as percentage of total merchandise imports 1997 1/	n.a.	Present value of debt (as % of GNP) 1997 1/	58
Fertilizer consumption (hundreds of grams per ha of arable land) 1995-97 1/	44	Total debt service (% of exports of goods and services) 1997 1/	29.5
Food production index (1989-91=100) 1995-97 1/	147.7	Nominal lending rate of banks, 1997 1/	n.a.
<b>Land Use</b>		Nominal deposit rate of banks, 1997 1/	35.8
Arable land as % of land area, 1996 1/	12.3		
Forest area (km <sup>2</sup> thousand) 1995 1/	90		
Forest area as % of total land area, 1995 1/	39.7		
Irrigated land as % of cropland, 1994-96 1/	0.1		

n.a. not available.

Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 1999

2/ World Bank, *Atlas*, 1999

3/ UNDP, *Human Development Report*, 1998

## PREVIOUS IFAD LOANS

Project Name	Initiating Institution	Cooperating Institution	Board Approval	Loan Effectiveness	Current Closing Date	Currency	Loans	% Disbursement
Volta Region Agricultural Development Project	World Bank: IDA	World Bank: IDA	06-May-80	08-Jan-81	31-Dec-88	SDR	9550000	100
Smallholder Rehabilitation and Development Programme	IFAD	UNOPS	03-Dec-86	25-Jan-88	31-Dec-95	SDR	5900000	100
Smallholder Rehabilitation and Development Programme	IFAD	UNOPS	03-Dec-86	25-Jan-88	31-Dec-95	SDR	4400000	100
Smallholder Credit, Input Supply and Marketing Project	IFAD	UNOPS	05-Dec-89	01-Mar-91	31-Dec-98	SDR	9100000	100
Smallholder Credit, Input Supply and Marketing Project	IFAD	UNOPS	05-Dec-89	01-Mar-91	31-Dec-98	SDR	3950000	100
Upper-East Region Land Conservation and Smallholder Rehabilitation Project	IFAD	UNOPS	01-Oct-90	14-Jun-91	31-Dec-97	SDR	9200000	100
Rural Enterprises Project	IFAD	UNOPS	02-Dec-93	01-Feb-95	31-Mar-02	SDR	5550000	69
Upper West Agricultural Development Project	IFAD	UNOPS	14-Sep-95	20-Mar-96	30-Sep-03	SDR	6750000	56
Village Infrastructure Programme	World Bank: IDA	World Bank: IDA	04-Dec-96	02-Apr-98	31-Dec-03	SDR	6950000	2.6
Root and Tuber Improvement Programme	IFAD	World Bank: IDA	04-Dec-97	15-Jan-99	31-Dec-04	SDR	6550000	14
Upper-East Region Land Conservation and Smallholder Rehabilitation Project - Phase II	IFAD	UNOPS	29-Apr-99	14-Jan-00	14-Jul-05	SDR	8300000	0





**EXPENDITURE ACCOUNTS BY COMPONENTS**  
(USD' 000)

	Capacity Building - Informal Financial Sector	Support to Rural and Community Banks (AfDB)	Institution Building - Apex Bank	Institutional Support - BOG/MOF	Total	Physical Contingencies	
						%	Amount
<b>I. Investment Costs</b>							
A. Civil Works	558	-	724	-	1 283	10.0	128
B. Vehicles, Goods and Equipment	488	-	5 152	591	6 231	8.0	500
C. Technical Assistance	1 553	-	2 763	-	4 316	10.0	432
D. Training & Studies	2 549	-	54	87	2 690	10.0	269
E. Support to Rural and Community Banks (AfDB)	-	4 314	-	-	4 314	10.0	431
<b>Total Investment Costs</b>	5 149	4 314	8 693	678	18 833	9.3	1 760
<b>II. Recurrent Costs</b>							
A. Recurrent Costs	287	-	-	718	1 005	10.0	100
<b>Total Recurrent Costs</b>	287	-	-	718	1 005	10.0	100
<b>Total BASELINE COSTS</b>	5 436	4 314	8 693	1 395	19 838	9.4	1 861
Physical Contingencies	544	431	746	140	1 861	-	-
<b>Price Contingencies</b>							
<b>Inflation</b>							
Local	2 139	1 229	1 158	385	4 911	-	-
Foreign	38	92	264	22	417	-	-
<b>Subtotal Inflation</b>	2 177	1 321	1 422	407	5 328	-	-
Devaluation	-1 768	-1 008	-975	-314	-4 065	-	-
Subtotal Price Contingencies	409	313	447	93	1 263	8.7	110
<b>Total PROJECT COSTS</b>	6 388	5 059	9 886	1 628	22 962	8.6	1 971
Taxes	213	48	270	208	738	9.1	67
Foreign Exchange	646	2 086	5 720	539	8 991	9.1	817

## LOGICAL FRAMEWORK

Hierarchy of Objectives	Key Performance Indicators	Monitoring and Evaluation	Critical Assumptions
<b>Sector-related goal:</b> Accelerate rural development and poverty reduction in Ghana with rural financial institutions playing a pivotal development role	<b>Sector indicators:</b> Percent increase in per capita GDP of rural population Percentage reduction in rural population below poverty line Percentage increase in rural household incomes Increase in rural employment	<b>Sector/country reports:</b> Core welfare indicators survey Ghana living standards survey (GLSS) National accounts	<b>(from goal)</b> Ø Project is evaluated as viable and donor funding is available. Ø Stable macroeconomic environment exists for poverty reduction. Ø Government is committed to proposed reforms.
<b>Project development objective:</b> Strengthen the continuum of rural financial institutions in order to broaden and deepen services and enhance the efficiency of rural financial intermediation leading to accelerated growth and poverty alleviation	<b>Outcome /Impact Indicators:</b> No. of rural-bank clients No. of rural communities covered by rural financial services Diversity of rural banks' products and services No. of informal financial institutions working with rural banks Percentage of rural banks' share of total rural savings mobilized Percentage of rural banks' share of total loan and advances	<b>Project reports:</b> Quarterly reports Mid-term review Project implementation completion review (ICR)	<b>(from Objective to Goal)</b> Ø Bank of Ghana maintains a supportive policy and regulatory environment. Ø Apex bank is established and provides key services to member rural banks.
<b>Output from each component:</b> EMPOWER rural informal financial institutions and their participants to expand services to rural clients, including the disadvantaged and women	<b>Output indicators:</b> No. of informal groups organized and trained; No. of informal groups participating in rural-bank programmes; No. of informal clients who access rural-bank services; Share of rural-bank savings mobilized from informal-sector activities	<b>Project reports:</b> Mid-term review Project ICR	<b>(from outputs to objective)</b> Ø Rural banks adopt and pursue a corporate policy to promote informal-sector linkages and microfinancing. Ø There is continued interest among rural communities in decision-making, self-help and thrift
RESTRUCTURE AND STRENGTHEN the network of rural banks with effective internal control and management, and with a variety of innovative products for serving rural clients including the disadvantaged and women.	No. of rural banks successfully restructured Percentage reduction in rural-bank fraud Profitability level of rural banks Percentage increase in rural-bank clients Share of rural-bank loans going to poor clients	Bank of Ghana annual reports Project M&E reports	
ESTABLISH the apex bank as a broad institutional framework for	Variety of services provided by the apex bank; No. of rural clearing centres operational by	Mid-term review Project ICR	Legal framework for the apex bank is established, with clear governance and entry and exit criteria.



provision of common services to rural banks and as a means of responding more effectively to the needs of rural clients.	end 2000 Reduction in cheque-clearing time among rural banks Timeliness of specie supply to member banks No. of personnel trained Value of funds lent to member banks Value of returns from apex bank investments No. of total rural clients covered by rural banks No. of rural banks meeting all Bank of Ghana performance criteria	Special field surveys of rural-bank members	
SUPPORT specialized departments of the Bank of Ghana for timely supervision and oversight; support MOF for more effective coordination of microfinance initiatives, including GHANFIN.	<b>BSD :</b> Timeliness of field monitoring of rural banks; No. of rural banks supervised annually; No. of BSD staff trained in use of information technology-based monitoring programme; <b>RFID :</b> Timeliness of reports on rural banking sector; No. of field assessments of rural banks' performance <b>MOF :</b> No. of microfinance entities participating actively in GHANFIN; No. of microfinance institutions meeting financial needs of the network; No. of members trained	Mid-term review Project ICR	Ø Mandate of RFID in the context of the restructuring of Bank of Ghana departments is clarified. Ø BSD is appropriately strengthened to provide timely support to apex bank.





## ORGANIZATION AND MANAGEMENT

### A. Implementation Arrangements

1. *Project Steering Committee*: To ensure coordination of donor support and effective linkages among various activities, policy guidance and technical oversight will be through a project steering committee. The steering committee will comprise the representatives of the donors, the Bank of Ghana, MOF, MOFA, the association of rural banks and the informal financial sector. The rural finance inspection department of the Bank of Ghana will provide secretarial services, with the project coordinator acting as the secretary. The steering committee will meet on a quarterly basis to review and approve workplans and budgets, and to review project implementation progress and performance. The RFID will be responsible for overall project coordination. This responsibility will include preparation of annual workplans and budgets, procurement, financial management and preparation of reports. Three key staff from the RFID – a project coordinator, project accountant and procurement officer – will report to the RFID director who will be responsible for setting broad policies, monitoring implementation, and providing adequate information on progress made to the management of the Bank of Ghana.

2. The *apex bank* will have its headquarters in Accra, but it will decentralize most of its activities. The project will support the creation of regional clusters in Accra, Bolgatanga, Kumasi, Sunyani and Takoradi and will also support the creation of *regional microfinance clusters*. Initially, these RMCs will be housed in the regional apex clusters, though more will be created as the project progresses and other arrangements will be required. The RMCs will help with the linkages between the informal finance sector and the rural banks. Since this is a specialized field, close and sustained collaboration between the rural banks and experienced NGOs is needed for it to succeed. The NGOs and community-based organizations will play critical roles in assisting informal microfinance groups such as *susu* groups and women's groups to link with rural banks. The project will provide funds to qualified NGOs/CBOs to contribute to organizing these groups in ways that will help them benefit from project activities aimed at them. The NGOs/CBOs that will be involved in the project activities must meet the criteria described in the project implementation manual.

### B. Financial Management

3. The PCU of the project will be responsible for its financial management. An experienced and qualified project accountant will carry out these activities and set up a sustainable financial system. In accordance with the proposed set-up of the project, financial management will be centralized, with most payments made by the financial management team unit at the RFID.

#### Special Account

4. A Special Account in United States dollars will be set up by the Bank of Ghana not later than 30 days after project effectiveness. All expenditures under USD 30 000 will be disbursed from the Special Account on the basis of SOEs. All other disbursements will be on the basis of full and acceptable documentation. The documentation for withdrawals made from the Special Account will be retained by the Bank of Ghana for ten years and will be reviewed by IFAD, IDA and AfDB supervision missions. The Bank of Ghana will submit a quarterly statement of transactions on the Special Account to donors. Requests for replenishment of the Special Account will be submitted every two months or whenever funds in the Special Account are not sufficient to meet outstanding and committed obligations.

## **Use of statements of expenses**

5. Disbursements will be fully documented except for contracts below the equivalent of USD 30 000 for civil works and individual consultants and USD 50 000 for goods and consulting firms as well as for all operating costs and training. Any expenditure that is not subjected to prior review will be on an SOE basis. All supporting documents for SOEs will be retained by the PCU or the Bank of Ghana and made readily available for review by periodic donor supervision missions and external auditors. All expenditures related to contracts above the equivalent of USD 30 000 for civil works and individual consultants, and USD 50 000 for goods and consulting firms, will be fully documented. Withdrawal cannot be based on SOEs.

## **C. Procurement, Audits and Reporting**

### **Procurement procedures and notices**

6. The PCU will be responsible for preparing and implementing the various actions required for procurement relating to the project. The procurement specialist, based in the PCU, will carry out all procurement activities, under the guidance of the project accountant and the project coordinator. For the procurement of civil works and consulting services estimated to cost up to USD 200 000, a general procurement notice (GPN) will be published in the United Nations *Development Business* and in at least one local newspaper with a national circulation. Specific procurement notices will be required for contracts to be procured under ICB and NCB procedures and for consultant contracts estimated to cost between USD 100 000 and 200 000, prior to the preparation of the shortlist. Consultant contracts estimated to cost USD 200 000 or more will be advertised in *Development Business*.

### **Procurement of civil works**

7. The project will support the rehabilitation and completion of five regional service centres of the apex bank. Given the small amounts involved in the rehabilitation activities and the geographical spread of such activities, there will be no ICB. Works estimated to cost USD 100 000 equivalent or less per contract, but less than USD 460 000 in the aggregate will be procured under lump sum, fixed-price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. The award will be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully and within the specified period. If the estimated contract value exceeds USD 100 000 but it is less than USD 460 000, NCB procedures shall be adopted.

### **Procurement of goods**

8. The project will finance vehicles, office equipment and computers as well as telecommunications equipment. To the extent possible and practicable, goods and equipment to be purchased under the project will be combined into packages worth at least USD 100 000 and will be procured centrally by RFID. Goods estimated to cost the equivalent of USD 100 000 or more will be procured under ICB procedures using IDA standard bidding documents. Contracts for goods available locally with an aggregate amount of USD 250 000 with contracts between USD 30 000 and 100 000 each will be procured through NCB using procedures acceptable to the donors. Procurement for readily available off-the-shelf goods that cannot be grouped, or standard specification commodities for individual contracts of less than USD 30 000 and not exceeding an aggregate amount of USD 250 000, will be procured on the basis of comparison of quotations from at least three eligible national suppliers.



## Procurement of consultancy services

9. Most consultants' services for the project be procured locally and selection will be through quality and cost-based selection methodology. All consultancy assignments estimated to cost the equivalent of USD 00 000 or more will be advertised in *Development Business* and in at least one newspaper with national circulation. In addition, the contracts may be advertised in an international newspaper or magazine seeking "expressions of interest". In the case of assignments estimated to cost between USD 100 000 and 200 000, the assignment will be advertised nationally and the shortlist may be made up entirely of national consultants, provided that at least three qualified national consultants are available in the country and foreign consultants who wish to participate are not excluded from consideration. Consultant services estimated to cost less than the equivalent of USD 50 000 may be contracted by comparing the qualifications of consultants who have expressed an interest in the job or who have been identified.

## Audits

10. It is expected that the expertise of an international auditing firm will be required on a short-term basis. Auditors will be selected using least-cost-selection procedures. The audit will be conducted as an ex-post review of the PCU's financial statements, financial systems, records, transactions and operations performed by professional accountants for the purpose of providing assurance of accountability, giving credibility to the financial statements and other management reports. It will also identify weaknesses in internal controls and financial systems and make appropriate recommendations for improvement. The PCU will maintain adequate records and accounts in accordance with sound accounting practices in respect of the project. The PCU will also retain all relevant documentation supporting all payments made from the Special Account for regular review by donor supervision missions and the external auditors. Annually, the project accountant will arrange for, and assist in the conduct of an audit of, the Special Account by an external audit firm acceptable to the donors. The scope of this audit will be as detailed as reasonably requested by the donors or the PCU. The Bank of Ghana will furnish each donor a copy of the audit report.

## D. Project Management Reporting

### Financial report

11. A report on *project sources and uses of funds* will summarize the sources of project financing according to the disbursement categories in the loan agreement. A report on the *uses of funds by project activity* will summarize project expenditures by components and sub-components (activities) consistent with those in the project appraisal document. Fixed assets of the project may be included as part of uses of funds. A report on *project cash withdrawals (disbursement)* will summarize by disbursement categories the current quarters' project expenditures, showing the amount paid from government funds. A *Special Account statement* will summarize the movements in the Special Account. A *cash forecast* report will summarize forecasted total project expenditures and eligible expenditures by disbursement category for the two quarters subsequent to the latest planning, monitoring and reporting system report received. Taking into account any balance remaining in the Special Account and any amount to be paid by other disbursement procedures (direct payment and special commitment), the cash forecast will establish the amount requested to be advanced to the Special Account.

## **Project progress report**

12. Progress reporting against the logframe will be a form of output monitoring. It is mandatory to have an idea not only about how much is being spent, but also about how much has been achieved as a result of such expenses.

## **Monitoring and evaluation**

13. The RFID will be responsible for M&E and evaluate the performance of the apex bank and rural banks. The objectives of M&E will be to assess the effectiveness of the project management and implementation. The bank supervision division (BSD) of the Bank of Ghana will work closely with the RFID in order to ensure timeliness of field monitoring of rural banks. This will include the statutory inspection functions of the BSD and the identification of suitable remedial action constraints being faced by the apex bank and rural banks. GHAMFIN and the microfinance regional clusters will be responsible for M&E of the informal financial-sector component-supported activities, CBOs and NGOs. They will (i) assess and monitor the extent to which formal rural financial institutions are able to link with informal financial intermediaries and reach the target groups, particularly women and the poorest segments of the rural population; (ii) identify constraints being faced by potential beneficiaries in gaining access to formal rural microfinancial services; (iii) evaluate the impact of microfinancing on the participation of private smallholders and rural producers, particularly women, in farm and non-farm income-generating activities as well as in mobilizing savings; (iv) gauge the efficiency of processing beneficiaries requests; and (v) evaluate the performance of the supporting NGOs and informal financial-sector institutions.

14. The activities of the M&E section will be complemented by a mid-term review. Also, annual impact evaluations will be conducted and will involve recognized NGOs or a competent consulting firm with a track record in this type of work, using participatory appraisal techniques. The impact assessments and evaluations will take gender- and poverty-related aspects into consideration. Apart from quantitative indicators on project achievements (such as number of groups, savings mobilized, credit disbursed, other financial performance indicators, and incremental income), information on qualitative indicators will also be collected and analysed paying special attention to disaggregation of gender aspects. As M&E could prove quite complex due to its national coverage and its involvement with both grass-roots and formal institutions, the monitoring process and performance assessment will need a considerable amount of decentralization with a coherent structure linked to a central point. The M&E process that considers beneficiaries as well as local-level institutions and their linkages with a central processing unit will also evolve as part of a participatory impact evaluation system.

## **E. Benefits**

15. **Access to project benefits.** The interventions proposed will have both direct and indirect benefits. In general, direct benefits will include increased investment in Ghana's rural sector due to the existence of a functional rural finance system, which will lead to expanded income investment opportunities in both the rural farm and non-farm sectors. These, in turn, will lead to expanded employment and improved incomes of rural households. The net effect of sustained rural employment and incomes will be measured in terms of greater food security, improved household incomes and lowered rural poverty rates. By broadening coverage and diversifying the range of instruments, products and services, the project will ensure that these benefits are captured by a wider segment of the rural population, including those from among the poorest segments and women's groups. Improved savings mobilization will enhance the pool of financial resources available for investment in rural enterprises, with substantial income effects in the rural economy. Indirect benefits will include stronger and more vibrant rural financial institutions capable of adopting new



APPENDIX V

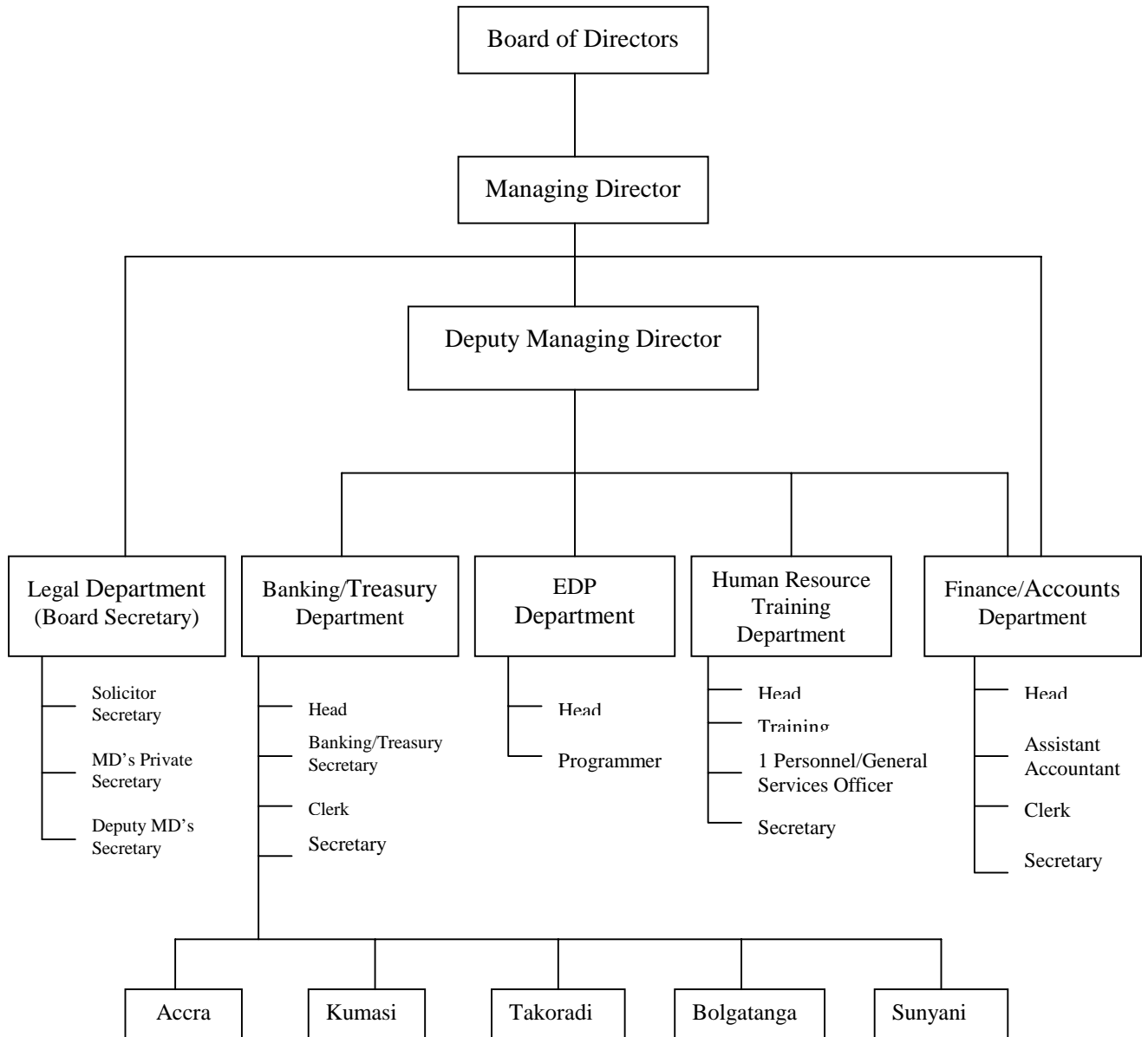
technologies and managing risks better; an expanded pool of skilled personnel; more efficient transmission of information; and heightened confidence in the rural financial sector by rural depositors, investors and borrowers. Women will have unconstrained access to participation in all project activities. In addition, some activities are specifically geared to benefit women's groups. Skills training to facilitate equal participation by women in project activities will also be provided.





### ORGANIZATIONAL CHARTS

#### Apex Bank



### Flowchart of Project Management Organization

