

**IN THE FIRST SESSION OF THE THIRD
PARLIAMENT OF THE FOURTH REPUBLIC
OF GHANA**

REPORT OF THE FINANCE COMMITTEE ON THE

1. DEVELOPMENT CREDIT AGREEMENT BETWEEN THE REPUBLIC OF GHANA AND THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) FOR THE AMOUNT OF SDR 3,900.000 (US\$5.13 MILLION);
2. THE LOAN AGREEMENT BETWEEN THE REPUBLIC OF GHANA AND THE INTERNATIONAL FUND FOR AGRICULTURE DEVELOPMENT (IFAD) FOR AN AMOUNT OF SDR 8,200,000 (US\$11.00 MILLION);
3. THE LOAN AGREEMENT BETWEEN THE REPUBLIC OF GHANA AND THE AFRICAN DEVELOPMENT BANK (AfDB) FOR THE AMOUNT OF UA 3,580,0000 (US\$5.05 MILLION);

**TO FINANCE THE RURAL FINANCIAL SERVICES
PROJECT**

1.0 INTRODUCTION

The above Agreements were laid in the House on Wednesday, 11th July 2001 in accordance with Article 181 of the Constitution, and referred to the Finance Committee for consideration and report, pursuant to Standing Order 171(1).

The Committee met with the Minister for Finance, Hon Yaw Osafo-Maafa, and his technical team and reports as follows:

2.0 BACKGROUND

Government continues to believe that critical to the success of rural development and poverty reduction, is the provision of efficient and effective financial services to the rural sector.

For these reasons Government and three development partners, namely, IDA, IFAD and AfDB have designed this Project with a view to providing a coordinated and multiple donor approach that will allow the sharing of lessons of experience and the pooling of resources and efforts to provide focus and maximum support to the rural and micro finance sector in a holistic manner.

3.0 PROJECT OBJECTIVES

The Central objective of the Project is to promote growth and Private Sector Development as well as further reduce rural poverty by broadening and deepening the provision of financial services (savings and credit) in rural areas through the following measures:

- (i) strengthening the network of rural banks and supporting the establishment of an Apex Bank to enable the rural banks to address technical and institutional constraints which impede their ability to realize their full potential and impact on rural economic development;

- (ii) strengthening the network of micro finance institutions in order to enhance effective integration of the rural financial system;
- (iii) fostering strong links between rural banks and micro finance institutions so as to expand and deepen the coverage of rural financial services; and
- (iv) strengthening the responsible departments of the Ministry of Finance and Bank of Ghana for improved oversight and policy formulation regarding rural financial intermediation.

3.1 PROJECT COMPONENTS

The project has four main components. These are:

1. CAPACITY BUILDING - INFORMAL FINANCIAL SECTOR

This component which will focus on strengthening formal and microfinancial entities by developing, organizing and training community groups and associations is expected to benefit the following target groups:

- (a) specialized micro and rural finance institutions including NGOs with a micro finance focus and licensed non-bank financial institutions such as credit unions and savings and loans companies;
- (b) informal financial institutions and community-based groups including "susu" collectors and clubs; savings and credit associations and local self-help groups,

- (c) NGOs, cooperatives, women societies and other such groups.

2. CAPACITY-BUILDING - RURAL AND COMMUNITY BANKS

There are currently 113 Rural and Community Banks, spread over all the 10 Administrative Regions of Ghana, many of which are bedeviled by poor management and staff, fraudulent practices, lack of modern technology and low capacity to mobilize adequate deposit/savings. The Project would therefore address the following:

- (i) restructuring the weak rural banks and strengthening their operational effectiveness;
- (ii) strengthening internal controls of all rural banks including provision of new information technologies, improving communication and logistics;
- (iii) developing an overall staff developing plan for all categories of rural bank staff, including Board of Directors and implementing these plans;
- (iv) reviewing and removing residual policies that impede rural bank efficiency such as those restricting geographical area of coverage; opening of branches and agencies as well as updating rural banks operational procedures.

This component will be financed with part of the AfDB loan of US\$5.05 million and will be repaid by the beneficiaries.

3. INSTITUTIONAL BUILDING - ESTABLISHMENT ON AN APEX BANK

This component will:

- (i) finance technical assistance needed to set up, train and operationalise an Apex Bank for the rural and community banks including the key units/departments of the Bank;
- (ii) support development of operational procedures for the Apex Bank consistent with the requirement for the Banking Law 1998, (PNDCL 225);
- (iii) finance short term technical assistance of experienced international experts to assist the Bank. The Apex Bank will serve as a central bank to rural banks to provide technical assistance and operational support involving banking services.

It is also envisaged that part of Bank of Ghana's supervisory functions over the rural banks will be transferred to the Apex Bank. The law allowing such transfer is under preparation.

4. INSTITUTIONAL SUPPORT TO THE BANK OF GHANA AND THE MINISTRY OF FINANCE

This component will provide support to the Bank of Ghana, notably the Banking Supervision Department (BSD) and the 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 supervision of the rural banks.

For the Ministry of Finance, the Microfinance Unit will be strengthened and resourced to enable it facilitate the integration of microfinance institutions into the rural financial system.

It is envisaged that this component will enable effective implementation monitoring and evaluation of project activities, including financial management, reporting and audits (by independent firms).

4.0 FINANCING OF THE PROJECT

The Project is expected to cost US\$22.96 million, which will be allocated as shown in the table below:

TABLE 1: LOAN AMOUNT ALLOCATIONS

BENEFICIARIES	AMOUNT ALLOCATED (US\$M)
APEX BANK (including the The Association of Rural Banks)	8.69
RURAL BANKS	4.31
INFORMAL SECTOR	5.43
BOG/MOF	1.40
TOTAL BASELINE	19.83
PHYSICAL CONTINGENCIES	1.86
PRICE CONTINGENCIES	1.27
TOTAL PROJECT COSTS	22.96

B: AFBD LOAN AGREEMENT

Loan Amount	-	UA3,580,000 (US\$5.05million)
Grace Period	-	10 years
Repayment Period	-	30 years
Interest Rate		
- 11 th - 20 th year	-	1%
- 24 th - 40 th year	-	3%
Services Charge	-	0.75% p.a. on loan amount withdrawn and outstanding
Commitment Fees	-	0.50% p.a. on loan amount undisbursed.

C. IDA DEVELOPMENT CREDIT AGREEMENT

Loan amount	-	SDR3,900,00(US\$5.12 million)
Grace Period	-	10 years
Repayment Period	-	30 years
Service Charge	-	0.75% withdrawn and outstanding
Commitment Fees	-	0.50% p.a. on loan amount undisbursed.

D Ghana Government/Bank of Ghana Contribution

The Government's contribution of US\$0.80 million would be in the form of:

- suitable premises to house the headquarters of the Bank as well as the Kumasi Branch. The Government has not yet provided the Bank with suitable premises for its operations;
- waived taxes and duties;
- US\$300,000 to open three separate Special Accounts each involving an amount of US\$100,000 for the three Loan Agreements.

5.0 OBSERVATIONS

The Committee observed that this Project is consistent with Government's overall economic development strategy, particularly three policies currently being actively pursued by Government, namely: poverty reduction, particularly in the rural areas; rural economic and social development; and enhanced private sector development.

Some Members were of the view that as the Apex Bank is to have the direct supervisory role over the Rural Banks it was not that necessary to invest money in strengthening the responsible Departments of the Ministry of Finance and the Bank of Ghana for improved oversight of these same Banks. The Minister assured the Committee that even though the Apex Bank will be directly supervising the work of the rural banks, the Bank of Ghana is the Central Bank in the Nation, charged with the duty of ensuring that the finances of the banking sector are in the right

order. It is therefore very important to strengthen the Bank of Ghana and ensure its optimal efficiency if the new role to be assigned the rural banks is to succeed.

Some Members also expressed concern about the rural banks not having a ceiling when it comes to investing a particular sector of the economy is concerned, thus the main goal of these banks has become the paying off of loans and nothing else. This, they said, has contributed to why some of the rural banks are not even situated in the areas they are to serve. The Minister, at this juncture, intimated that he hopes to introduce the system practiced in some Southern American countries where the banks are mandated to have "sinking funds" for certain sectors of the economy. This, he said, goes a long way to help the development of these sectors.

6.0 RECOMMENDATIONS


The Committee, having closely examined the Credit Agreements to finance the Rural Financial Services Project, recommends to the House for approval, by Resolution, the following:

1. The Loan Agreement for SDR8,200,000 (US\$11 million) between the Republic of Ghana and the International Fund for Agriculture Development (IFAD);
2. The Loan Agreement for UA3,580,000 (US\$5.05 million) between the Republic of Ghana and the African Development Bank (AfDB); and

3. The Credit Agreement for SDR3,900,000 (US\$5.13 million) between the Republic of Ghana and the International Development Association (IDA);

in accordance with Article 181 of the Constitution and Section 7 of the Loans Act 1970, Act 335.

Respectfully submitted.


HON. R. ADDAI BASOAH
(CHAIRMAN)


ALHAJI IBRAHIM GOMBILLA
(CLERK)

20th July 2001