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The Independent Evaluation Group

Report No. 88333

PROJECT PERFORMANCE ASSESSMENT REPORT

GHANA

GHANA RURAL FINANCIAL SERVICES PROJECT
(COFN-04430, IDA-33740, IDA-3374A)

May 30, 2014

IEG Public Sector Evaluation
Independent Evaluation Group

Currency Equivalents (annual averages)

Currency Unit = Currency Unit = Ghana Cedi (GHS)

2000	US$1.00	GHS0.54
2001	US$1.00	GHS0.72
2002	US$1.00	GHS0.79
2003	US$1.00	GHS0.87
2004	US$1.00	GHS0.90
2005	US$1.00	GHS0.91
2006	US$1.00	GHS0.92
2007	US$1.00	GHS0.94
2008	US$1.00	GHS1.06

Abbreviations and Acronyms

ADB	Agricultural Development Bank
AfDB	African Development Bank
AFSAP	Agricultural Finance Strategy and Action Plan
ARB	Association of Rural and Community Banks
CAEL	Capital Asset Quality Earnings and Liquidity Rating
CGAP	Consultative Group to Assist the Poor
CCU	Cooperative Credit Union
CU	Credit Union
CUA	Credit Union Association
DANIDA	Danish Development Agency
DCA	Development Credit Agreement
EMU	Efficiency Monitoring Unit
FA	Facilitation Agency
FSS	Financial Self Sufficiency
FSSA	Financial Sector Stability Assessment
FSAP	Financial Sector Assessment Program
GCC	Ghana Cooperative Council
GCSCA	Ghana Cooperative Susu Collectors' Association
GCUA	Ghana Credit Union Association
GHAMFIN	Ghana Microfinance Institutions Network
GHAMP	Ghana Microfinance Policy
GLSS	Ghana Living Standards Agency
GTZ	Government Technical Cooperation Agency
ICR	Implementation Completion Report
ICT	Information and Communication Technology
IDA	International Development Association
IEG	Independent Evaluation Group
IFAD	International Fund for Agricultural Development
ISR	Implementation Status Report
M&E	Monitoring and Evaluation
MASLOC	Microfinance and Small Loans Center
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MIS	Monitoring Information System
MIX	Microfinance Information Data Exchange
MoF	Ministry of Finance
MoFEP	Ministry of Finance and Economic Planning
NAMFIC	National Microfinance Center

NBFI	Non-Bank Financial Intermediary
NGO	Non-Governmental Organization
OSS	Operational Self Sufficiency
PAD	Project Appraisal Document
PAF	Poverty Alleviation Fund
PIU	Project Implementation Unit
PMU	Project Management Unit
PNDCL	Provincial National Defense Council Law
PPAR	Project Performance Assessment Report
PSC	Project Steering Committee
PSR	Project Status Report
RAFiP	Rural and Agricultural Finance Project
RoA	Rate of Return on Assets
RoE	Rate of Return on Equity
RFID	Rural Finance Inspection Department
RMFI	Rural and Micro Financial Institutions
S&Ls	Savings and Loans
SHG	Self Help Group
SME	Small and Medium Enterprises
WAN	Wide Area Network

Fiscal Year

Government: January 1 – December 31

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Contents

This report was prepared jointly by Brendan Horton, who visited Ghana assessing the project in April 2012, and by Sushma Narain who undertook its write up and completion, under the supervision of Anjali Kumar, Task Manager. The report was peer reviewed by Stephen F. Rasmussen and panel reviewed by Robert Mark Lacey. Yezena Yimer provided administrative support.

Tables

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Principal Ratings

	ICR*	ICR Review*	PPAR
Outcome	Satisfactory	Moderately Satisfactory	Moderately Unsatisfactory
Risk to Development Outcome	Moderate	Significant	Moderate
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	Moderately Unsatisfactory
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	Moderately Unsatisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

Project	Task Manager/Leader	Division Chief/ Sector Director	Country Director
Appraisal	Rudolph A Polson	Jean Paul Chausse	Peter C. Harold
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IEG Mission: Improving World Bank Group development results through excellence in evaluation.

About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses 20-25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEG staff examine project files and other documents, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEG peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. The PPAR is also sent to the borrower for review. IEG incorporates both Bank and borrower comments as appropriate, and the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEG Rating System for Public Sector Evaluations

IEG's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEG website: http://worldbank.org/ieg).

Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High, Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Preface

This PPAR assesses the Ghana Rural Financial Services Project, approved by the Board on June 8, 2000. The project closed on December 31, 2007. A total of US$5.13 million was committed by IDA for the project. Total appraised project cost was US$22.96 million. The rest of the funds were to be financed by International Fund for Agricultural Development (IFAD) and the African Development Bank (AfDB), the Government, beneficiaries and the Bank of Ghana. At project closure, the total project cost was US$24.40 million of which IDA disbursed US$5.67 million and the rest, US$18.73 million, was co-financed. The project was extended by one year from December 3, 2006 to December 31, 2007.

This report is based on a field visit to Ghana that took place in April 2012. The field visit included discussions with the Bank of Ghana, government officials, non-governmental organizations, donors, and other stakeholder. It also includes a review of the project's appraisal report, legal documents, Implementation Completion Report and Implementation Completion and Results Report, and other relevant material. The cooperation and assistance of all stakeholders as well as the support of World Bank Country Office in Ghana is gratefully acknowledged.

The PPAR was undertaken for two reasons: first, to reevaluate the project in light of long term evidence five years following the closing and second, as part of a larger cross country study on IDA-financed support for financial inclusion, covering Mozambique, Brazil, Mexico, and Ghana. As part of this larger exercise, the Rural Financial Services Project was also evaluated for its effectiveness as an instrument to promote financial inclusion of the poor.

Following standard IEG procedures, copies of the draft PPAR will be sent to relevant Government officials and agencies for their review and comments. No comments received from the Borrower.

Summary

This PPAR assesses the Rural Financial Services Project, approved by the Board on June 8, 2000 and closed on December 31st, 2007. The project's objectives were to "promote growth and reduce rural poverty" by broadening and deepening financial intermediation. The objectives were predicated on emerging evidence of the causal link between finance, growth, and poverty reduction

The relevance of the project's objectives was substantial. However, the relevance of design is rated modest. While innovative, the project design had some shortcomings, particularly in terms of testing a pilot and building in evaluation and learning, as well as with regard to adapting it to local conditions. There was no clear link between project design and the reduction of rural poverty. Some of the project components, particularly the 'linkage' component (intended to build the capacity of the informal financial services sector through linkages with formal financial service providers) and the training, were not clearly thought through and resulted in implementation challenges. Perhaps reflecting Bank practice at its inception, the M&E system lacked indicators to measure the achievement of the project objectives.

The overall outcome rating for the project is moderately unsatisfactory. The project's overall objectives of reducing rural poverty and achieving economic growth were stated at a very high level and were ambitious given the size of the project. While the project aimed to achieve its overall objectives by the broadening and deepening of financial sector intermediation, IEG's review of the achievement of these intermediate targets suggests that there is insufficient evidence presented that the broadening and deepening of financial intermediation that could be attributed to the project had a significant impact on either rural poverty alleviation or economic growth. The analysis undertaken by the PPAR shows that the expansion of financial intermediation was limited in the lagging regions, among poor populations, and in the rural / agricultural sectors. Efficiency is rated modest because of design features and implementation issues that resulted in delays and inefficient use of funds, albeit, the extent to which these impacted upon project costs is difficult to measure.

Project start-up was hampered by the electoral cycle. The new Government, sworn-in in early 2000, re-evaluated all donor-funded projects agreed to by its predecessor. This significantly delayed project effectiveness. For the IDA financed share, this led to a lag of 16 months between approval and effectiveness. Also as a result, what started out as joint financing ended up being somewhat out-of-step as the IDA, IFAD and AfDB-led projects each started and ended on different dates. The government's parallel programs of directed lending and subsidies affected the pace of implementation and potentially the sustainability of the project.

Bank and Borrower Performance are rated moderately unsatisfactory. There were shortcomings in particular with respect to the linkage and the training components and the M&E design that impacted quality at entry as well as implementation. Supervision is rated moderately satisfactory, given the efforts made by the supervision team to identify issues related to the linkage component and the M&E system, although timely effective corrective actions were difficult to undertake. M&E issues were only partly addressed at

the Medium Term Review, although unfortunately by this time funding was largely depleted. The supervision reports rated the project as satisfactory despite the challenges that it faced since inception. There was regular policy dialogue at the project level, but it was admittedly difficult for the Bank project team to influence change in the government's subsidized and directed credit programs. This however, should have been a subject for ministerial dialog with Bank management, involving, perhaps, other instruments for policy reform.

Government performance was moderately unsatisfactory given the delays in effectiveness, delays in the issuance of the Microfinance Guidelines, and due to the continuous government intervention in financial markets through parallel programs which featured subsidies and directed credit, with implications for the achievement of broadening and deepening rural financial intermediation. Notwithstanding, implementing agency performance was moderately satisfactory. Notably, the Banking Supervision Department at the Bank of Ghana hosted the Project Implementation Unit and coordinated co-financing from IFAD and IDA and parallel financing from AfDB though joint financing ended up being somewhat out-of-step due to effectiveness delays. And the Apex Bank did assume the functions of an effective conduit from the Rural and Community Banks. The performance of the Micro Finance Unit – the department within the Ministry of Finance in charge of implementing the microfinance component – was weak. The microfinance forum set up by the Ministry of Finance helped in broad consultations and policy dialogue though these were not very effective.

There are six main lessons:

- Specific project design features (in this case the linkage program) may work well in one context, but not in another. Innovations should be vetted through pilot and stakeholder consultations to ensure their suitability for the local context. A pilot for the formal/informal linkage program would have highlighted implementation challenges, which could then have been addressed before scaling up. Due to its implementation challenges the component had to be revised at mid-term review to narrow its focus to a smaller number of rural commercial banks and to support them in developing business plans to help them form linkages as well as to rationalize the type of trainings, group selection criteria etc. This was costly and inefficient.
- Widening financial intermediation by reaching new markets or sectors requires appropriate strategies or innovative products that address these markets. The project was expected to increase outreach to agriculture and the lagging rural regions but the design did not include any strategies for doing so either through innovative products or any region specific approaches that addressed the risks of serving/ developing these markets for the financial institutions. Not surprisingly, the outreach to both agriculture and the lagging regions remained low.
- The design of an effective training program requires clear identification of the content of the training to be imparted, the capacity of trainers, and who and how many will be trained. The monitoring and evaluation of the effectiveness of training is an important aspect of an effective training program, and unless carefully incorporated can waste resources.

- Subsidies distort markets; however, when subsidies are political and entrenched they are hard to displace. It is insufficient for a project team to conduct dialogue on directed and subsidized credit. Despite regular policy dialogue, the project team on its own was not successful in reducing subsidies even though directed credit and subsidies had a direct bearing on the project's intermediate objective of financial widening and deepening.
- The lack of measurable indicators and an appropriate M&E system can reduce a project's ability to make timely corrections as well as to track its impact. The impact of the project could not be ascertained in the absence of an appropriate M&E System.
- Project teams should be careful to avoid project development objectives that are too general to be effectively monitored, and too high level to permit clear attribution to the project. Such objectives are generally not monitored and compromise the evaluation of results

Caroline Heider
Director-General
Evaluation

1. Background and Context

1.1 In the year 2000 when the loan was approved GDP growth had just fallen to 3.7 percent from 4.4 percent in the previous year largely due to external shocks triggered by the decline in the world market prices of Ghana's major export commodities, cocoa and gold. The overall budget deficit was large, at 7.9 per cent of GDP, and average annual inflation had climbed to 40.5 percent, from just 13.8 percent in 1999.

1.2 Interest rates edged upwards in 2000 along with the inflationary trend. The prime market rate on the 91-day Treasury bill rose from 36.7 percent in June to a peak of 40.6 per cent before declining to 38.1 per cent by end-2000. The spread between the borrowing and lending rates in commercial banks remained very high at around 30 per cent with adverse consequences for financial intermediation.

1.3 Poverty, though lower than a decade ago (40 percent in 1998-99 compared to 52 percent in 1990-1991), continued to be deeper in rural areas compared to urban areas. The headcount poverty rate among rural households was 50 percent against 19 percent for urban households. Furthermore, disaggregation of data by administrative region and agro-ecological locality showed wide discrepancies between northern and southern regions in poverty levels and in progress made in poverty reduction. In the three administrative regions of northern Ghana (Upper East, Northern and Upper West regions), the head count poverty index was exceptionally high: 90 percent of the population in the Upper East region was poor, followed by the Upper West region with 84 percent, and the Northern region with an almost 70 percent incidence of poverty (Ghana Statistical Service, 2000).[1]

1.4 The rural sector accounted for 80 percent of the total population, 60 percent of total employment and 39 percent of GDP. Agriculture contributed about 36 per cent of total GDP, and its growth averaged 3.6 percent over the 10-year period from 1997 to 2007, accounting for more than half of total growth in this period. The agricultural sector grew at 2.1 per cent in 2000, lower than the rates of 3.9 per cent in 1999 and 5.1 per cent in 1998. The poor performance of agriculture in 2000 can be traced to the crop and livestock sectors, which grew at only 1.1 per cent compared with 4.7 per cent in the previous year.

1.5 At 60 percent of overall labor force participation, agriculture is also important both for poverty reduction and growth. At the same time Ghana's agricultural system is traditional, rain-fed, and dominated by smallholders: some 2.7 million farms, averaging 1.2 hectares in size, account for 80 percent of agricultural production. Such subsistence, small holder agriculture also dominated rural employment. In the northern region for example agriculture, hunting and forestry accounted for 71. 2 percent of total employment.

1.6 The lack of access to credit for input purchase (fertilizer, seed, and labor), processing, and trade were identified as a key constraint to improved economic performance in the rural sector, both agricultural and non-agricultural. At the time of the project in 1999, commercial bank credit to the agricultural/rural sector had dropped from 31 percent of total lending in

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1 International Food Policy Research Institute. 2007. Regional Disparities in Ghana: Policy Options And Public Investment Implications. IFPRI Discussion Paper 693

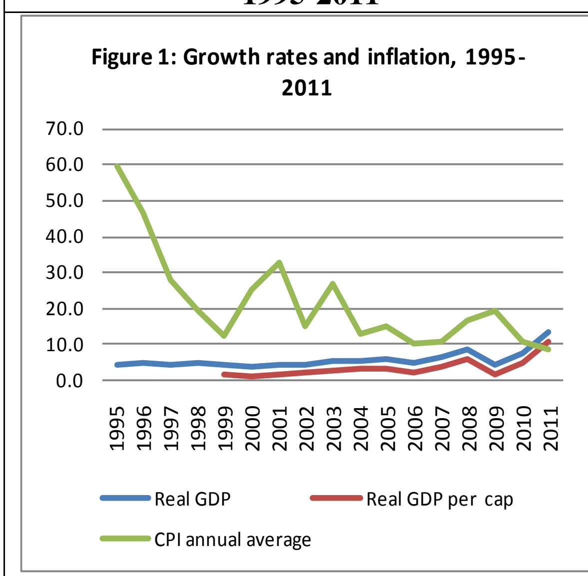
1983 to about 8 percent in 1999. The internal factors limiting credit access were identified to include lack of collateral due to the lack of, or poor quality of, farm assets, lack of ownership of assets for women farmers, poor financial management, the risky nature of farming and the inability of clients to prepare viable project proposals. External factors included high interest rates; high cost of service delivery to the sector, and perceptions about farming among financial services providers as a high risk activity. With less than 10 percent of formal sector credit going to the rural sector, informal sources gained greater prominence. The funding from these sources was however limited and borrowing costs were high.

1.7 The development and improvement of the rural sector's productivity and competitiveness was central to Ghana's growth and poverty reduction. Recognizing that the lack of financial services in rural areas was a major constraint to increased and sustained development of the sector, Ghana's 1995 strategy for accelerated long term growth and poverty reduction (Vision 2020) included the aim of promoting rural financial intermediation by deepening outreach and expanding services to a large number of rural clients.

Macroeconomic Context

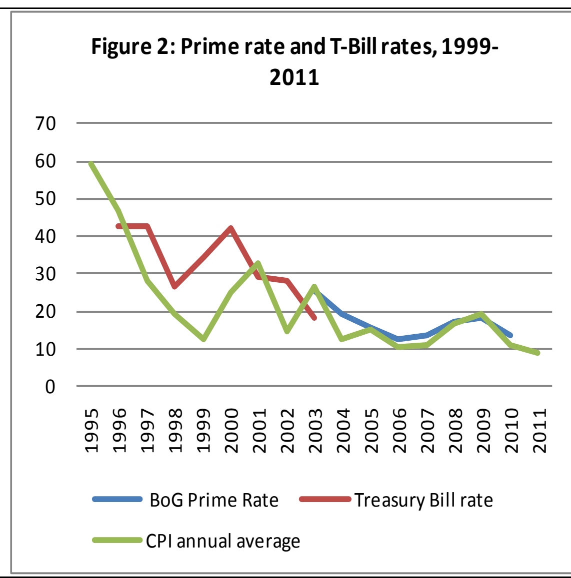
1.8 During the period of project implementation, (2000-2007), Ghana enjoyed steady economic growth, with GDP rising between 3.3 and 13.6 percent per year, and by between 0.5 and 10.8 percent in per capita terms between 1995 and 2007 (Figure 1). Inflation also showed a downward trend, though with some fluctuations (Figure 1), and interest rates trended downwards in parallel (Figure 2).

Figure 1. Growth Rates and Inflation, 1995-2011



Source: IMF

Figure 2. Prime rate and T-Bill Rates, 1999-2011



Source: IMF

1.9 Ghana's economic growth reflected continued buoyancy of commodity exports as well as stronger construction and service sector activities. External performance was strong in 2010. Exports grew by $2 billion, with cocoa and gold benefiting from high global prices.

While imports staged a strong recovery after a decline in 2009, the current account deficit of 7.2 percent of GDP in 2010 was more than financed by strong capital inflows, including direct investments in the oil sector and Treasury bond purchases by nonresidents. Gross reserve cover rose to 3.2 months of import cover at end-2010. The rebasing of Ghana's national accounts in 2010 showed the country as having a higher income level and growing faster than earlier recorded. With an upward revision to per capita incomes of about 70 percent, Ghana moved into the lower-middle income country grouping (IMF, 2011)

1.10 Reflecting the strong balance of payments, the cedi has traded in a relatively narrow range against the U.S. dollar since mid-2009. This currency stability, combined with the lagged effects of earlier monetary tightening, contributed to a decline in inflation from around 20 percent in 2009 to close to 9 percent by mid-2010. Further, favorable harvests sheltered Ghana from rising global food prices (IMF, 2011).

1.11 The Bank of Ghana's benchmark interest rate which had been kept at 13.5 percent since July 2010 was reduced by 50 basis points in May 2011, reflecting the stability of inflation in recent months, the continuing strength of the cedi, and a slight slowing of credit growth in early 2011. Despite a partial sterilization of Ghana's balance of payments surpluses, reserve money grew by 35 percent in 2010 and broad money by 46 percent, considerably more rapidly than in 2009. Private sector credit also picked up towards end-2010 (IMF, 2011).

1.12 The national poverty headcount also declined from 39.5 in the year 2000 to 28.5 percent in the year 2005-06, while urban poverty declined from 19.4 to 10.8 percent, and rural poverty decreased from 49.6 to 39.2 percent (Table 1).[2]

Table 1. Poverty headcount Ratios

	1999/2000	**2005/2006**
National	39.5	28.5
Urban	19.4	10.8
Rural	49.6	39.2

Source: Trading Economics

1.13 Poverty, however, was significantly higher in the northern savannah regions, that accounted for three fifths of the population. Several reasons accounted for this: poorer soils, lack of infrastructure equipment, limited access to finance and lack of integration with the dynamic southern region. Thus, an Overseas Development Institute analysis, undertaken in 2005, concluded that the key factors underlying growth in Ghana during the 1990s and early 2000 were spatially concentrated, and that Northern Ghana had benefited much less from such factors.[3] Such growth factors included (i) greater openness of the economy, both through increased exports (cocoa, gold and other minerals and timber) and increased imports;

[2] The poverty line is anchored on the nutritional needs of the Ghanaian population. It derives from a lower limit of 2,884,700 cedis per adult equivalent per year, and an upper limit of 3,708,900 cedis per adult equivalent per year. The estimates here are based on the upper limit of 3,708,900 cedis (GSS,2007).

[3] Overseas Development Institute, 2005. "Economic Growth in Northern Ghana." UK.

(ii) increased public spending, much of it aid financed; (iii) a significant increase in wholesale and retail trade, as well as in transport and construction activity; (iv) increased receipts of remittances, from both outside and within Ghana. The World Bank's report (2011) on poverty trends in the north similarly concluded that: "should the current economic and demographic trends continue, poverty could be largely eliminated in the South by 2030, while still affecting two-fifths of the population in the north.[4]

Project Context

1.14 Ghana's rural financial sector comprised both formal and informal institutions. Its formal financial institutions consisted mainly of Rural and Community Banks and rural branches of commercial banks, especially the Agricultural Development Bank and Ghana Commercial Bank. Semi-formal institutions included non-governmental organizations and other community based organizations, Co-operative Credit Unions and savings and loan companies. Finally, its informal institutions included susu collectors, susu clubs, self-help groups, money lenders and traders. Overall the sector was dominated by the Rural and Community Banks with 63.6 percent of clients, 58.9 percent of deposits, and 46.8 percent of loans.

1.15 In addition, the government launched a number of special credit schemes from 1989, usually at subsidized rates, reaching relatively few people, and with extremely poor recovery rates. The Government had also entered into microcredit through poverty alleviation programs and the District Assembly Common Funds. This was often been perceived and used as politically motivated "loans," with negative consequences for repayment. Disbursements were made through Rural Community Banks, Savings & Loans and Non-Governmental Organizations, who evaluated the beneficiaries. The main threat to sustainable rural and micro finance from these government programs came from their negative effects on efforts of rural microfinance institutions to mobilize savings and to collect from borrowers, whose willingness to repay was typically low when loans were known to come from government or donor funds at subsidized rates (Obeng, 2008).

1.16 The Agricultural Credit and Cooperative Bank (later shortened to Agricultural Development Bank, ADB) was the first attempt to set up specialized banking for rural areas that was open to the general public. However, its operation had limited success in reaching smallholder credit. The ADB was established in 1965 as a development bank and subsequently (1971) its operations expanded to offer a full spectrum of banking services. It is owned by the Government of Ghana (64 percent) and the Bank of Ghana (36 percent). ADB's mandate was to finance production and investments in the agricultural sector. Most of the Agricultural Development Bank's term lending was targeted to big traders, large farmers, and processing units. The ADB suffered from poor economic conditions in the 1970s and early 1980s, poor repayment, and other problems, resulting in negative net worth by the end of the 1980s and restructuring in 1990. Furthermore, the share of smallholder credit in ADB's total lending was a mere 24 percent in1999 and the share of agriculture loans was 51 percent. After restructuring and after being permitted to undertake an expanded scope of

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[4] World Bank, 2011. "Tackling Poverty in Northern Ghana." Report Number 53991-GH

activities, its financial profitability has improved, but it has remained subsidy-dependent (Kowubaa, 2000).

1.17 Rural Banks were established from 1976 as a response to the limited penetration of ADB into rural areas and to better mobilize savings from local communities, but many of these banks were operationally weak. Rural Banks were licensed under the Banking Act of 1970, with special minimum capital rules: the Bank of Ghana permitted small unit banks to be established with a minimum capital of only US$43,000 (compared to US$650,000 required for commercial banks at the time), provided that the capital was raised from the local community that the bank was intended to serve.

1.18 Until 1994, the Bank of Ghana provided the initial working capital of each rural bank in the form of preference shares. Through a combination of rapid inflation, currency depreciation, economic decline, mismanagement of funds and natural disasters, combined with weak supervision, only 23 of the 123 Rural and Community Banks were deemed to have "satisfactory" structure and performance in 1992. The need for re-capitalization and capacity-building was addressed during 1990-94 under the World Bank's Rural Finance Project, and half the rural finance banks achieved "satisfactory" status by 1996. The number of rural banks reached a peak of 133 in 1998, but fell to 111 in 1999 with the closure of 23 distressed banks - and the commissioning of one new bank. In addition to operational weakness, their coverage was poor in many regions. The Northern region for example had only 1 percent of all rural banks though it accounted for 12 percent of total farmers. The Upper East region had slightly better coverage with 2 percent of the rural and community banks and 10 percent of farmers (Gyamfi, 2010).

1.19 The informal sector made an important contribution by reaching the large majority of the rural under-served. However, informal services were fragmented, costly and many lacked significant scale. The informal sector comprised a variety of services and service providers, such as rotating savings systems, professional moneylenders, part-time moneylenders, traders and suppliers' credit, mutual fund groups, susu collectors, Credit Unions and Cooperatives. According to an IFAD study (IFAD, 2008) formal financial service providers such as commercial banks represented about 40 percent of the money supply in the overall financial sector. The remaining amount was believed to be outside the formal system and mainly in rural areas (Nair and Fissah, 2010).

1.20 'Susu collectors', prominent among the informal microfinance providers, are primarily savings groups. Susu collectors who are registered with associations accounted for nearly a quarter of the estimated over 4,000 collectors nationwide, collecting an average of US$15 a month from approximately 200,000 clients (GCSCA 2003). Non- Government Organizations (NGOs) and Community Based Organizations have also been particularly important in making financial services available in the northern part of the country, where both commercial and rural banks were scarce–although they tended to be somewhat localized and dependent on donor funds. There were few NGOs that reached significant scale, among those whose primary mission was microfinance. According to a 2003 Ghana Microfinance Network study although nearly 50 NGOs had active micro credit programs, they were generally multipurpose or welfare-oriented agencies. Only four exceeded 3,000 clients and their total outreach was only about 60,000 clients.

1.21 To address the limitations of the formal and the informal systems and to build on the strength of each, linkages between formal and informal institution were seen as the way forward. Each group was expected to benefit from the strengths of the other. As a Center for Policy Analysis study (Amoako-Tuffour 2000) noted "forging linkages have implications for the mobilization of local savings and their efficient use as well as for the macro-economy. Linkages would enhance the flow of savings and credit up and down the system. Ghana can grow faster if savings of small contributors gathered through the informal sector operators can be re-directed to other productive areas of the economy through the banking channels. Linkages have the potential to make saving safer and more profitable for individual clients, as well as give the formal sector access to a significant, low cost of loanable funds. Equally important, linkages can lower transaction costs and overcome information barriers that impede rural financial intermediation. They can also help establish the transmission channels through which credit control and monetary policies targeted at the formal sector can have economy-wide effects." These types of linkages were generally absent in micro-credit interventions in Ghana and particularly in northern Ghana. At best, formal financial institutions were made to manage funds provided by special projects (ODI, 2005).

1.22 According to the Project Appraisal Document (Pg. 9) the project was expected to help develop and test new instruments and products that would take into account the important roles and comparative advantages of each actor in the rural/micro finance continuum (rural banks, NGOs, community-based organizations, and rural associations, susu groups, etc.). The emphasis would be on: (i) identifying, mobilizing and training informal groups in mobilizing and managing their funds; (ii) organizing, sensitizing, and empowering informal groups as effective partners with formal financial sector entities; (iii) inculcating savings behavior among group members through practical programs and other innovations for more effective group cohesion; and (iv) training and capacity building for microfinance institutions, including NGOs, to assist in group development and training through their active participation in the provision of rural and micro-financial services.

1.23 It was expected that linkages would help bring together the informal sector entities who were too fragmented and lacked the education, information and assets (collateral) needed to effectively obtain financial services and many of the formal financial institutions in urban (and quasi-urban) settings that lacked the experience and organizational arrangements to link "backwards" into the rural sector. For example, although a high proportion of clients of rural banks were informal groups, many of these banks often failed to effectively harness such groups by developing appropriate instruments— "specialized windows and services" tailored to the needs of these client groups. In many instances, for example, rural banks tended to adopt the behavior and mannerisms of the larger commercial banks in the capital Accra, with very strict and limited hours of operation, unsuitable to their clientele (PAD Pg. 9). Many rural banks also tended to use financial products and loans made specifically for the urban clients who had access to capital and collateral. This inflexibility resulted in a mismatch between rural informal clients and formal financial entities. On the positive side, some of the leading rural banks teamed up with NGOs to introduce microfinance methodologies, such as village banking (PAD Pg. 9).

1.24 Past donor assistance to the rural financial sector had often been piecemeal, driven by each donor's specific interests. The joint project was expected to improve donor coordination. IFAD had in the past focused largely on grassroots microfinance institutions; IDA on the larger financial sector and some rural banks; and AfDB on lines of credit channeled largely through the Agricultural Development Bank (ADB). The project was an opportunity to coordinate donor initiatives.

1.25 The main issues the project sought to address were (i) increasing support to a financially underserved rural sector, (ii) improving poor donor coordination, (iii) strengthening the Rural and Community Banks system, (iv) strengthening the capacity of semi-formal and informal entities, and (v) strengthening the thin and overextended oversight of the Rural and Community Banks. The target group of the project was thus the informal financial sector–institutions where the program targeted rural groups and associations, including women, as well as the poorest segments of the rural population served by informal and micro-financial entities. For rural and community banks, the program targeted the 111 rural and community banks and their managers, directors and shareholders. Strengthened and improved in capacity, these banks were expected to address the financial resource needs of the rural agricultural and non- agricultural sector. The program was to be national in scope but focused on specific strata of the rural financial sector.

1.26 On its part, the Government of Ghana, according to the Project Appraisal Document (Pg. 9) was committed to reforming the rural financial system for both sustainable growth and the distribution of the growth generated to a wider share of the population, as well as for poverty reduction. Towards this end the Government committed to making substantial efforts including ending subsidies, raising or lifting interest rate ceilings, reducing government ownership in the financial sector and setting up rural and community banks as well as an Association of Rural Banks.

1.27 However, the government continued to be involved in rural finance through subsidies and directed lending throughout the project implementation period. Government's subsidized programs were implemented in parallel by rural finance institutions including its Rural and Community Banks. Such subsidized programs and their poor repayment performance distorted the rural finance market with implications for widening and deepening the rural financial sector. In 2006, one year prior to project closure, the Government established a specialized agency to channel microfinance funds called the Micro-finance and Small Loans Center (MASLOC) which fell directly under the authority of the Presidency, with some intention to address this issue.

2. Objectives, Design, and their Relevance

Objectives

2.1 According to the Project Appraisal Document, the project's objectives were to "promote growth and reduce poverty in Ghana by broadening and deepening financial intermediation in rural areas." According to the Development Credit Agreement (DCA), the objective was "to promote growth and reduce rural poverty."

2.2 The objectives in the DCA and the project appraisal document are nearly identical, except that the DCA specifies that the objectives are to promote growth and reduce **rural** poverty, and does not specifically mention the broadening and deepening of financial intermediation in rural areas. This PPAR uses the DCA definition as it is more specific (as it specifies “rural”) and is legally binding. However IEG adds the caveat that the objectives as stated in the DCA are of a very high order, and as such, attribution to the project at hand is difficult.

Relevance of Objectives

2.3 The relevance of objectives is rated **Substantial**. The project's objectives were in line with Ghana’s growth and poverty reduction strategy (GPRS II 2006-2009) for the country to achieve middle-income status and the Millennium Development Goals, and to ensure that benefits of growth are shared. The objectives were also relevant to IDA’s country assistance strategy for Ghana at the time of project preparation (Country Assistance Strategy 1995, 1999) and implementation and since closure (2007-2011). These Country Assistance Strategies highlight private-sector led economic growth, agricultural development, financial sector strengthening and the need to address lagging regions in particular the northern areas of Ghana. Pillar I of the 2007- 2011 Country Assistance Strategy thus focused on accelerating private sector-led growth, improving financing for development, eliminating barriers to private sector development and trade, and encouraging rural development. The most recent Ghana Country Partnership Strategy (2013-2016) also underscores the growing geographical disparities and inequality, and points out that the poverty rate in the northern part of the country has declined much less than in the rest of the country, largely reflecting the region’s much higher rate of subsistence farming and much lower rate of urbanization. During the next four years, the World Bank will support the Government of Ghana’s efforts through three pillars: (1) improving economic institutions; (2) improving competitiveness and job creation; and (3) protecting the poor and vulnerable. These pillars together reflect the government’s strategic goals of diversifying the economy, sustaining high rates of growth, reducing poverty and inequality in access to basic services and opportunities, strengthening governance and mitigating and managing risks. The World Bank will thus continue to support Ghana's drive for shared prosperity through the enhancement of the productivity of rural Ghanaians by the development and dissemination of agricultural technology and improved linkages to value chains, paying special attention to smallholders in the North and to women.

2.4 The project objectives were also in line with the Government’s view of Rural Financial Institutions as primary vehicles for poverty alleviation and growth as they provide critically-needed financial services to Ghana's rural areas where an estimated 70 percent of the population lived (at appraisal). Prior to the Rural Financial Sector Project, the rural sector had been financially serviced mostly by informal entities that were unregulated and financially weak, fragmented and operated with outdated technologies. Broadening and deepening the coverage of rural financial services was expected to support the development of a sustainable and inclusive rural financial sector that would contribute to growth and poverty reduction.

Design

2.5 The project included four components with a total actual cost of US$24.40 million (Table 2). IDA financed US$5.67 million of the project's total cost.[5]

2.6 **Component 1 - Capacity Building in the Informal Financial Sector** (also referred to as the 'linkage' component). (Estimate at Appraisal: US$5.43 million).[6] Total component cost at appraisal was US$6.39 million, of which US$1.86 was to be provided by IDA, US$3.63 million by the International Fund for Agricultural Development (IFAD), and US$0.69 million by beneficiaries in the form of cost sharing, and the remainder by the Bank of Ghana and the Ministry of Finance (MoF). As originally conceived, this component, also called "the microfinance component" focused on strengthening informal microfinance entities by: developing, organizing and training community groups and associations such as Self Help Groups (SHGs), Community Based Organizations and susu groups on how to access Micro Finance Institutions; training and capacity-building of Micro-Finance Institutions; and increasing linkages between informal/semiformal financial sector entities and Rural Community Banks.[7] Activities under this component were to build on existing initiatives being undertaken by Ghana Microfinance Institutions Network (GHAMFIN), susu groups and Credit Unions. It was expected that 8,000 such informal end-user groups or self-help groups (about 60 percent women) would be organized and trained; 500 new community savings and credit groups would be formed; and that there would be an increase in Rural and Community Bank savings mobilized from informal sector activities. Overall, this component was expected to generate about 330,000 additional clients for Rural and Community Banks and other Rural and Micro Financial Institutions of whom 200,000 would be women. Seventy percent of Susu collectors' clients were also to be women.

2.7 **Component 2- Capacity Building of Rural Banks**. (Estimate at Appraisal: US$5.05 million). This was to be financed by the African Development Bank (AfDB) and the Government. There was no IDA financing for this component. The component comprised: undertaking a thorough and in-depth assessment of the financial and management performance of each rural bank in order to determine the extent of the constraints affecting their profitability and operational effectiveness and designing appropriate policy response (liquidation/restructuring, capacity building needs, etc.); supporting a human resource development program for key staff and personnel (e.g., managers, accountants, rural credit analysts) in order to augment the overall quality of rural bank personnel; upgrading internal

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[5] The ICR does not provide information on the total actual costs of the project, the actual costs of the components or IDA's share in the components. IDA's actual costs reported in this review, US$5.67 million, are taken from Operations Portal. RFSP was co-financed with IFAD, government counterpart funds were provided, while AfDB provided parallel funding and GTZ provided technical assistance. The magnitude of actual co-financing is not listed in the ICR, although the share of each donor during appraisal was provided. According to the Government's ICR, actual cofinancing of US$18.73 million was made up of US$11.02 million from IFAD, US$5.01 million from AfDB, US$0.75 million from the Government, and US$1.95 million from beneficiaries

[6] The PPAR team was not able to obtain actual project costs by components. Table 3 provides component wise break of the total cost at appraisal

[7] Susu groups are savings groups, with group members arranging for collection and payment. The ROSCA (rotating savings and credit association/club) is a modified form of susu group. Under the ROSCA model, the members decide on the amount to be contributed by each member at regular intervals. The total collected is given to each member in turn (IFAD 2000)

controls and procedures for greater transparency of operations needed to enhance depositors' confidence; investing in various technologies needed to promote rural bank-to-rural bank communication, operations and synergy; rationalizing agency banking and linking the number of agencies to each individual rural bank's capacity and addressing residual policy constraints (geographical restrictions, secondary reserves, classification standards, etc.) which affect the smooth operations and functions of the rural banking sector.

2.8 **Component 3 - Establishment and Operationalization of the Association of Rural Banks Apex Bank**. (Estimate at Appraisal: US$9.89 million). IDA was to finance US$2.9 million of the appraised cost. IFAD was to provide US$6.57 million, the Government was to provide US$0.27 million and the Bank of Ghana was to provide US$0.13million This component included: sensitizing of member rural banks, their shareholders, and clients on the proposed institutional changes which would be introduced under the apex initiative; developing and clarifying the institutional and legal framework under which the apex would operate; supporting technological innovations that would permit more efficient exchange of information between the member rural banks, the apex, and the oversight departments of the Bank of Ghana, the central bank; strengthening the responsible departments of the Bank of Ghana for more effective oversight of the activities of the apex bank and the member rural banks; supporting training and other capacity building activities needed for the effective operations of the apex; establishing a decentralized clearing and support system of the apex consistent with the regional clearing systems of the Bank of Ghana; and financing technical assistance to put into place appropriate operational procedures and policies needed for transparency and accountability of apex operations

2.9 **Component 4 - Support to the Bank of Ghana and the Ministry of Finance for strengthening the institutional and policy framework of improved oversight of the rural finance sector.** (Estimate at Appraisal: US$1.63 million). IDA was to finance US$0.37 million of the appraised cost. US$0.81 million was to be provided by IFAD, and US$0.22 million each by the Bank of Ghana and the Ministry of Finance (MoF). This component aimed at strengthening the Banking Supervision Department for effective monitoring and supervision, as well as strengthening the capacity of the Rural Finance Inspection Department for rural finance policy and strategy formulation. These two departments within the Bank of Ghana were the focal points for monitoring of the rural and community banks. The investment in new technologies aimed at facilitating improved reporting, standardization and timely analysis of rural banks' returns to more effectively guide decision makers and provide an early warning system of changes in rural banks' performance. This component aimed at reinforcing the capacity of the Ministry of Finance to coordinate various programs supporting rural, informal and microfinance institutions and to collaborate in the development of capacity building programs.

Relevance of Design

2.10 Relevance of Design is rated as **Modest**. The proposed causal chain with respect to activities, outputs and intermediate and final outcomes was not sufficiently clear and convincing. The proposed activities and their intended outputs were not sufficient to attain the project’s intermediate or final objectives.

2.11 The objectives of the project as stated in the DCA were "to promote growth and reduce rural poverty" This was to be achieved by broadening and deepening financial intermediation in rural areas. Given that financial intermediation for both agriculture and the lagging northern regions was disproportionally constrained, increasing access to finance for agriculture and the poorest sections was central to both poverty reduction and growth. The project design however did not include adequate strategies for increasing outreach to agricultural beneficiaries specifically, or to the lagging northern regions. The evidence of the design flaw is that while overall growth increased and poverty declined, financial intermediation for agriculture and the northern lagging region continued to be low and poverty remained unchanged or increased in these lagging northern regions.

2.12 According to the PAD the proposed actions under the capacity building components were expected to strengthen rural financial institutions, foster linkages between the different actors (Central Bank, Association of Rural Bank's Apex Bank to Self Help Groups and Micro-Finance Institutions) and contribute to deepening and widening rural financial intermediation, and implicitly to the final objectives of growth and rural poverty reduction given the widely recognized link between access to finance, growth, and poverty reduction.[8]

2.13 The capacity building and linkage component (Component 1), however, was not appropriately designed at the detailed level, and had to be revised after the mid-term review. It was based on the experience of the Self Help Group (SHG) and Bank linkage program[9] in India without sufficiently adjusting for local conditions, for example through a pilot or through stake holder consultations. It required the organizing and training of a large number of Community Based Organizations, Non-Governmental Organizations (NGOs) and Finance NGOs and then linking them to rural banks. The design lacked clarity regarding the type of groups to be organized, the training to be provided as well as how exactly the linkage aspects were expected to work. Further, the Community Based Organizations operated in the same markets as the Rural Community Banks with whom they were to be linked and as such they were competitors and not in an obviously complementary position to each other. Evidence of this design flaw is suggested by the limited demand for such linkages from the rural community banks. There was also an overestimation of the project's capacity to create new groups. The project appraisal document also failed to identify any risks with respect to the formation and training of the groups as well as the demand for their linkage among the Rural

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[8] Some cross-country studies, including firm-level, industry-level and state-level evidence suggests that access to finance spurs economic development (World Bank, 2001, Honohan, 2004, 2007). There are suggestions that financial development could disproportionately help the poor, through two channels: aggregate growth and changes in the distribution of income (Beck et.al. 2007)

[9] Self-Help Groups (SHGs) Bank Linkage programs, launched by India's National Bank for Agriculture and Rural Development (NABARD) Bank, integrate informal savings and credit groups with the mainstream banking system in India. SHGs are mostly informal groups which are formed with the assistance of self-help promotion institutions (SHPIs) which include NGOs, government agencies, banks, co-operatives and microfinance institutions. In addition to helping with group formation, SHPIs provide training, monitoring, and other support services. SHGs collect periodic savings and make loans to their members. Overtime SHGs mobilize more savings, retain earnings and often borrow external funds enabling larger loans. Most SHGs have 10 to 20 members with similar socio-economic back ground and from the same locality. Subsequently, bank credit is also made available to the group to augment its resources for lending to its members. Under the program NABARD refinances bank loans to SHGs; that is, it provides financing to banks at a below market interest rate, though banks continue to carry the risk for their loans

and Community Banks both of which later became a challenge. The target of creating 8,000 new groups proved overambitious and finally only a quarter of the target could be organized.

2.14 The Project Appraisal Document refers to subsidies in rural finance. Project activities were expected to reduce the dependence on such subsidies.[10] Though the reduction of subsidies is not explicitly mentioned in the project's objectives, it would have been difficult to achieve the objective of broadening and deepening financial intermediation in the face of such subsidies. Yet, the design lacked any specific strategies or action plan for reducing/eliminating subsidies due to specific programs of directed lending, and took it for granted that this would be an expected outcome of project activities.[11] However given Ghana's track record of directed lending it transpired that it was insufficient for this project to effectively address the issue through project activities and ongoing policy dialogue by project personnel. A more effective outcome could have been achieved if this issue had been elevated to ministerial level dialogue. Instruments such as parallel Development Policy Credits may have been better equipped to tackle such issues.

2.15 The government's use of ad hoc micro-credit programs implemented by Rural Community Banks through their apex continued throughout project implementation. Some of these schemes were also politically motivated and subsidized schemes were aimed at pre-selected beneficiaries/groups who largely viewed them as grants. The low repayment rates of such programs (as they were seen as grants not loans) distorted market discipline. A recent study of subsidy dependence among the Micro-Finance Institutions in Ghana finds that subsidy dependence continues to be high and that the drop-out rate for many Micro-Finance Institutions was high as well (Aveh, Krah and Dadzie, 2013), confirming findings from earlier studies (Zeller and Meyer, 2002) that many Microfinance Institutions that were perceived to be successful required state or donor transfers to subsidize their costs.

M&E design

2.16 The overall M&E design in the project appraisal document was limited, perhaps reflecting current practice in the Bank at the inception of the project. It lacked appropriate indicators for measuring the two final outcomes. A revised results framework was put in place following the mid-term review. However this only partially measured the intermediate outcomes and was still not able to include any indicators to track the achievement of overall project development objectives. Responsibility for Monitoring and Evaluation was entrusted to the Bank of Ghana's Rural Finance Inspection Division (the Division) except for

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[10] The PAD refers to reducing dependence on subsidies in two instances: i) in view of the institutional reforms the institutions were expected to become less dependent on continued donor or government subsidies (PAD Pg. 9) ii) the group linkage programs were expected to support the groups to increase their profitability and reduce their dependence on subsidies except at the startup phase (PAD Pg. 33)

[11] The following from IFAD's RFSP's project completion assessment, 2011 substantiates the extent and the impact of subsidy: "*MASLOC started its main activities at a time when Ghana was preparing for elections: results from initial loan disbursements worth GHC 55million were disastrous, with repayment rates of less than 20 per cent. However, in 2009 new management took over and tried to establish new systems to build a better performing portfolio. Setting up MASLOC did not change the fact that it operates with government funding and can therefore afford to provide subsidized credit at 10 per cent while commercial rates average 24 per cent. Nevertheless, MASLOC has more recently introduced better practices such as financial literacy, loan appraisal and pursuit of loan payments.*"

Component 1 which was implemented and monitored by the Microfinance Unit of the MOF with the assistance of a facilitating agency.

2.17 The results framework specified a number of project outputs. Project beneficiaries identified as rural households would avail themselves of new employment opportunities and income-generating investments resulting from enhanced rural financial services. More specifically, 330,000 rural clients would benefit directly as clients of Rural and Community Banks or through membership of 8,000 self-help groups or Susu groups. However, there were no indicators to track new employment, income generation or investments. There were also no indicators for outputs under rural microfinance institutions or policy areas. Other indicators to capture the improvement in service delivery as a result of the training of different rural finance institutions, drop-out rates or subsidy dependence were also missing.

2.18 The indicators of achievement of project objectives in the M&E system were- *i) Total annual savings mobilized; ii) Total no. of clients of rural banks; and iii) Total annual loans and advances.* However, these were indicators of outputs and only partially measured the intermediate outcome of "broadening and deepening financial intermediation in rural areas." Furthermore, these indicators had no base values or targets.

2.19 At mid-term review, the revised results framework added the following "outcome" indicators (i-iii) and "intermediate" (iv-v) indicators: i) 20 percent annual increase in number of new clients (depositors and borrowers); ii) 30 percent annual increase in deposits in rural banking system; iii) annual loan advances in rural banking system reaching 50 percent or more of annual deposits; iv) enhanced capacity of an increasing number of Micro-Finance Institutions (measured in terms of the number of Micro-Finance Institutions that were trained); and v) improved capacity of network of Rural and Community Banks (measured in terms of the number of Rural and Community Banks rated satisfactory by the Apex Bank upon achievement of the 10 percent capital adequacy ratio).

2.20 However, the three revised "outcome" indicators (i-iii, on new clients, deposits and loans) were also effectively intermediate indicators, and not indicators for the achievement of the project development objectives of growth and poverty reduction. Indicator (i) on numbers of clients did not adjust for high dropout rates among rural borrowers, even in successful programs, as suggested by the literature. Indicator (iii) for total loans and advances was an incomplete indicator depth of intermediation or financial deepening as it did not capture the increase in volume of private credit relative to GDP. The project also did not track loan size *relative* to GDP per capita as a measure of depth of outreach to the poorest segments of the population.

2.21 One of the two "intermediate outcome indicators," Indicator (iv) was also an output indicator that captured the number of trained microfinance institutions. The last indicator (v) on capital adequacy could be considered an intermediate outcome indicator that captured the number of Rural and Community Banks that attained capital adequacy ratios.

2.22 The M&E system did not include appropriate indicators to measure the achievements of the final objectives of i) promoting growth and ii) reducing rural poverty–perhaps reflecting current practices at the Bank when the loan was approved. According to the project appraisal document the "net effect of sustained rural employment and incomes" would be measured through "greater food security, household incomes, and lowered rural poverty rates." (p.15) However, no baseline data on poverty levels at the start of the project was collected, and no impact assessment was planned to measure the project's income generation or poverty reduction impact.

2.23 Moreover, the project did not track the impact in the poorer northern regions or on agriculture. The M&E system also did not track subsidy dependence even though government subsidies in rural finance were prevalent and often politically motivated and made it difficult to achieve the intermediate objectives of deepening and widening rural financial systems.

2.24 Overall the M&E system did not provide an adequate basis for assessing the achievement of the objectives both intermediate and final objectives.

Table 2. Summary of Project Costs by Component at appraisal (US$'000)

Component	Allocation in US$ million						
	Total costs, of which	Bank Financing	IFAD	AfDB	Govt	Beneficiaries	Bank of Ghana
Capacity Building Informal Financial sector	6.39	1.86	3.63		0.21	0.59	0.10
Capacity Building of Rural Banks	5.05	0		5.02	0.05		
Institutional Building -- ARB Apex Bank	9.89	2.9	6.57		0.27		0.13
Institutional Support to BoG and MoF	1.63	0.37	0.81		0.22		0.22
Total	22.96	5.13	11.00	5.02	0.75	0.59	0.46
Source: World Bank, PAD; IFAD PAD, Table 1							

3. Implementation

3.1 The loan was approved on June 8, 2000. The project became effective on December 4, 2001. The Mid-term review took place on February 23, 2005 and the project closed on March 31, 2007.

Project Cost and Financing

3.2 The project's actual cost was US$24.40 million. The Bank financed US$5.67 million of the total costs. The rest was co-financed: US$11.02 million from IFAD, US$5.01 million from African Development Bank (AfDB), US$0.75 million from the Government, and US$1.95 million from beneficiaries (Table 3).

Table 3: Project Cost (Appraisal and Actual) – By Source of Financing (US$ millions)		
	APPRAISAL	ACTUAL
IDA	5.13	5.67
AfDB	10.12	11.02
Government	0.75	0.75
Beneficiaries	1.95	1.95
Total	2.96	24.4
Source: PAD, ICRR, Operations Portal (Actual Cost for IDA), Government's ICR Annex		

Implementation and Project Management Arrangements

3.3 The Bank of Ghana, through its Rural Finance Inspection Division, was the designated implementing agency for all components of the project. According to the PAD (Pg.30), a key factor in this designation was the project's component on banking regulations, policies and institutional arrangements for which the Central Bank had comparative advantage, compared to any other stakeholder entity. Despite this strategic choice, however, a number of regulatory and policy reforms were either delayed or not implemented (para 4.12). Additionally, the Division managed the previous Rural Finance Project funded by the IDA which closed in 1995. The focus on strengthening rural financial intermediation in Ghana, within the appropriate legal and institutional framework, was deemed consistent with the revised mandate of the Division. The microfinance component was implemented by the Microfinance Unit of the Ministry of Finance, with the assistance of a Facilitating Agency. Finally, overall policy guidance on project implementation was the responsibility of a Project Steering Committee chaired by the Governor of the Bank of Ghana.

Factors that Affected Implementation

3.4 **Effectiveness delays**: The project effectiveness was delayed by nearly 16 months as the new Government that was sworn-in in early 2000 decided to re-evaluate all donor-funded projects agreed to by its predecessors. Another consequence of this was that what started out as joint financing between IFAD, AfDB and IDA ended up being somewhat out-of-step as these respective projects started and closed at different dates. The closing date for IFAD was delayed from September to December 2008 and for AfDB from December 2004 to December 2007.

3.5 **Design weaknesses:** Design weaknesses in the "Capacity building and linkages" component as discussed in para 2.13 hampered implementation. The capacity building and linkage component was not appropriately designed and had to be revised after the mid-term review. It was based on the experience of the Self Help Group (SHG) and Bank linkage program in India without sufficiently adjusting for local conditions, for example through a pilot or through stake holder consultations. It required the organizing and training of a large number of Community Based Organizations, Non-Governmental Organizations (NGOs) and Finance NGOs and then linking them to rural banks. As the ICR points out (Pg.6) the selection of beneficiaries to be trained was insufficiently focused on Community Based

Organizations with existing links to formal financial institutions and training was inefficient and excessively supply driven. Further, the Community Based Organizations operated in the same markets as the Rural Community Banks with whom they were to be linked and as such they were competitors and not in a complementary position. Consequently there was no demand for such linkages. There was also an overestimation of capacity to create new groups. The target of creating 8,000 new groups proved overambitious and finally only a quarter of the target could be realized.

3.6 The component was revised at the Mid Term Review conducted by IDA and IFAD in 2005, two years later than scheduled because of the slow start of the project, The recommendations to refocus this component included (i) establishing qualifying criteria for client selection including the need for them to be linked to rural microfinance institutions; (ii) recruiting additional facilitating agencies to screen the requests for training and technical support and (iii) launching the Microfinance Support Initiative to support the linkages between the formal and informal actors by working with a smaller group of rural commercial banks in developing profitable business products to expand into the microfinance arena. The expectation was that the revised component would undertake a number of measures including improving and expanding training for rural microfinance institutions; restricting training of community based organizations to those directly concerned with micro-finance; launching a microfinance support initiative to build the capacity of 10 – 15 Rural and Community Banks and apex microfinance institutions to deliver and sustain microfinance services to the rural poor in their catchment area; and finally, updating the feasibility for a capacity building fund to draw lessons from the pilot.

3.7 **Regulatory Reforms**: The implementation and sustainability of the project was linked to key regulatory reforms. The law for the Association of Rural Banks' Apex Bank, 2006 that allowed the Apex Bank to conduct oversight of the Rural Commercial Banks on behalf of the Bank of Ghana, was completed at the time of the project closing in 2007.[12] However the amended regulations pertaining to non-bank financial intermediaries became effective only in 2008 and the new Bank of Ghana Regulations for Microfinance Institutions were adopted in 2011. The PPAR mission was informed that the rules and regulations for Credit Unions had yet to be finalized.

3.8 **Subsidies and Directed lending**: The government's use of ad hoc micro-credit programs implemented by Rural Community Banks through their apex continuously undermined financial discipline. Some of these politically motivated, subsidized schemes were aimed at pre-selected beneficiaries/groups who largely viewed them as grants. These clients did not meet the rural microfinance institutions' own criteria for lending. This generated the erroneous impression in the market place that the rural microfinance institutions concerned were in fact themselves providing such preferential credits, whether subsidized or not– which damaged their reputation. The low repayment rates of such programs further distorted market discipline. A recent study of subsidy dependence among microfinance institutions in Ghana finds that subsidy dependence continues to be high and that the drop-out rate for many microfinance institutions was high as well (Aveh, Krah and Dadzie, 2013), confirming findings from earlier studies (Zeller and Meyer, 2002) that many

[12] ARB Apex Bank Regulations, 2006 (LI 1825)

microfinance institutions that were perceived as successful required state or donor transfers to subsidize their costs. The project's M&E system, however, neither tracked subsidy dependence nor drop-out rates. The governments subsidized funding has not been phased out but is now channeled through a specialized agency, the Microfinance and Small Loans Center (MASLOC) which falls directly under the authority of the Presidency. MASLOC was established in 2006, one year prior to project closing.[13]

Safeguard Compliance

3.9 As the project was a technical assistance project focusing on institutional reforms and capacity building, no environmental assessment was needed as no safeguards were triggered.

Fiduciary Issues

3.10 At inception the project's Financial Management assessment noted that the Rural Finance Inspection Division of the project management unit lacked the capacity for implementation of financial management. An action plan was developed to address these weaknesses, which was successfully implemented. The project's Financial Management rating was consistently rated 'satisfactory' in supervision reports. All financial covenants were complied with and all project audits were submitted on time and there were no fiduciary issues of a financial or procurement nature.

4. Achievement of the Objectives

4.1 The project's development objectives were to: "promote growth" and "reduce rural poverty." These objectives were to be attained through "broadening" and "deepening" financial intermediation in rural areas." As discussed in para 2.19 the M&E system, reflecting past practice at the Bank, did not have indicators to track the project's development objectives. According to the project appraisal document (p 15), the impact was to be measured in terms of "greater food security, increased household income, lowered rural poverty." However, the means to measure these were not defined.

[13] The project team initially attempted to have these practices eliminated but met with strong resistance on the part of the government. Rather it was decided that these preferential resources, if maintained, should be administered through a specialized public sector agency, the National Microfinance Center (NAMFIC). NAMFIC was replaced by the Micro-Finance and Small Loans Center (MASLOC) which falls under the authority of the Presidency. MASLOC is not supervised by the Bank of Ghana or the Ministry of Finance. To the extent that some preferential resources were to continue to be on-lent through RCBs, it was also agreed that the funds should be provided wholesale to the participating financial institutions who would then be able to on-lend them to the clients at interest rates of their choice so enabling the financial institution concerned to "control" both repayment risk and the interest rate charged. Complementary budget support could be used to assist end-users, if needed and justified on socio-economic grounds. This decision followed the Poverty Outreach Assessment of various kinds of programs being intermediated by RMFIs whether financed from their own resources, donors or government, which was prepared by the Ghana Microfinance Institution Network (GHAMFIN, 2005), at the request of the government, through the project. This study had demonstrated that government funded programs performed worse than privately funded ones both in terms of poverty outreach and in achieving high repayment rates and sustainability. Furthermore, it was concluded that it might be counterproductive for funders to impose conditions on financial intermediaries in terms of the selection of sub-borrowers and/or credit terms. It would be better for the funders to wholesale the funds to the participating financial institutions and for these to on-lend on their own terms and conditions, as suggested above.

The intermediate outcome indicators identified by the project at the mid-term review only partially captured the achievement of these objectives. The indicator for financial widening captured the increase in outreach in absolute terms, this was not segregated by region[14] or by different segments of the population; for example the outreach to less financially developed, less financially served rural populations and lagging regions. There were also no indicators to measure the project's depth of poverty lending such as the average size of loans and deposits relative to GDP per capita. Sector wise breakup in particular for credit to agriculture was not tracked; even though lack of credit to agriculture was cited as a reason for undertaking the project (PAD, Pg. 6) and reduction of rural poverty was a development goal. Data collected by the Living Standards Measurement Survey published in 2008 (however based on field work in 2005-2006) showed that a mere 8 percent of rural households in Ghana had access to credit for financing agriculture, suggesting slow improvement in overall access to rural credit over the project period. The majority of these rural households received credit from informal sources while the rest accessed credit from State Banks and Cooperatives. More recent household survey data are not available. Thus, overall there is insufficient evidence presented that the broadening and deepening of financial sector intermediation that could be attributed to the project had a significant impact on poverty alleviation or economic growth. On the contrary, what evidence there is suggests that it did not.

Outputs

4.2 The establishment and operationalization of the Apex Bank for the Association of Rural Bank in 2002 was one of the project's important outputs. The ARB Apex Bank was incorporated as a public limited liability company in the year 2000 with Rural Commercial Banks as its shareholders. The APEX was granted a banking license in 2001 and later in the year admitted to the Bankers Clearing House. It began clearing services on July, 2002, in all the 11 clearing centers in Ghana.[15] The project contributed to: (i) the financing of the headquarters building; (ii) training of staff; and (iii) provision of operational budget support in particular for salary payments in the early years of the project (budget support began to be phased out towards the end of the project).

4.3 Later, the ARB APEX Bank Regulation that was enacted in 2006 conferred further powers on the ARB APEX, enabling it to conduct oversight on behalf of the Bank of Ghana. This was needed as the number of rural and community banks and their geographic dispersion was stretching the capacity of the responsible departments in the Bank of Ghana. There has, however, been limited progress in this area because of lack of funding from the Bank of Ghana and some confusion as to the role ARB Apex Bank is expected to play. The Bank of Ghana has not to date formally delegated any inspection and supervision functions to

[14] The regions of the north for example, that are poorer, underdeveloped, less populated and largely rural. The southern regions on the other hand are more populated; more developed and have high growth and lower and declining poverty levels.

[15] The ARB Apex Bank Ltd was registered under the Companies Code 1963, Act 179 as a public limited liability company and licensed by the Bank of Ghana under the then Banking Law, 1989 (PNDCL 225) as repealed by the Banking Act 2004, (Act 673) . Apart from the above legal and regulatory framework in which the Bank is operating, it is also subject to the Bank of Ghana Act, 2002 (Act 612) and other directives issued by the Bank of Ghana from time to time. Furthermore, the ARB Apex Bank Ltd is regulated by its Regulations; ARB Apex Bank Regulation (L.I.1825), 2006. (Source: ARB APEX Bank: http://www.arbapexbank.com/aboutus.php)

the ARB Apex Bank, notwithstanding its power to do so under section 46 of Legal Instrument 1825. On the other hand, the Central Bank expects the ARB Apex Bank to assist it through the collection and analysis of the quarterly prudential reports which the rural commercial banks are required to submit to both the ARB Apex Bank and the Bank of Ghana (cf. ARB Apex Bank Regulations supra, section 47).

4.4 The ARB Apex Bank provides a number of services and oversight functions such as specie supply, liquidity management, training to all Rural and Community Banks, money transfers between members, check clearance etc. The ICR reports a number of improvements in the rural financial sector brought about by the ARB APEX such as reductions in time required for check clearing from two weeks to five days, the approval of advances to salaried workers from 14 days to 3 days, and reductions in over the-counter withdrawal time on average from 20 minutes to less than 9 minutes (p. 12). Even though the Bank of Ghana has not fully delegated the oversight function, the Apex Bank carries out a number of oversight functions relating to capital adequacy ratios of Rural and Community Banks and maintenance of liquidity reserves.

4.5 The project also helped start the ARB APEX's computerization program with the assistance of the African Development Bank, which has subsequently been picked up by the Millennium Challenge Account (MCA) The program put in place a Wide Area Network (WAN) connecting all rural and community banks to the central site. This has further facilitated interbank transactions and payments improving the efficiency of rural financial intermediation. Furthermore, the Apex Bank envisages using the WAN for training programs. This is expected to further reduce cost of such training.

4.6 A total of 10,687 informal financial sector end users of the microfinance component were trained. This was however, about one-quarter of the revised target set at the Mid Term Review. This was in part because the training fund had been largely depleted during the first part of the project, notwithstanding the very small number of end-users (precise numbers are not available) who had been effectively trained. In addition, the performance of some of the selected trainers was also unsatisfactory, with a significant number of them not providing any training at all (Pentax Consulting Report, August 2005).

4.7 The outputs planned under the training and linkage component were not initially successful. There was lack of clarity regarding who was to be trained and what type of training was to be imparted (para. 2.13). Group formation proved challenging. According to the ICR, the component was somewhat of an afterthought and not appropriately thought through or vetted for local conditions. For example, the concept of linking existing rural microfinance institutions (credit unions, susu collectors, etc.) to rural banks was flawed as these institutions operated in the same markets as the rural commercial banks and saw themselves as competitors rather than mutual supporters. So there was very little demand for such linkages.

4.8 In light of its weak performance, the component was restructured at the Mid-Term Review in early 2005 to focus thereafter on (i) training of microfinance institutions and their apex institutions, (ii) training of existing or potential end-users linked to these microfinance institutions so as, in turn, to better link them to the rural and community banks; and (iii) the launching of a Microfinance Support Initiative to build the capacity of rural and community banks and apex microfinance institutions to deliver and sustain microfinance services to the rural poor in their catchment area.

4.9 The revised component showed some achievements. Strategic business plans were developed for 15 selected rural and community banks and three training manuals were developed. Ten rural and community banks reported putting their plans into action with a resultant increase in the number of microfinance clients and size of microfinance portfolios. All participating rural and community banks became operationally self-sufficient. Overall some 8,000 rural and community bank staff were provided training in customer care, treasury and credit management, anti-money laundering, internal controls and check clearing. Some 468 Micro-Finance Institutions received training, as compared to a target of 500, of which about 348 received training more than once. In addition, 17 good practice training manuals were developed that could be used by future generations of trainers.[16]

4.10 Methodology, implementation and training manuals for microfinance capacity building initiatives for product development, innovation and client support for rural and community banks were prepared by the ARB Apex Bank with the support of a consulting company (Mel Consulting, 2008). The initiative was assessed by the consultants as having been successful on the basis of a comparison of performance for 2007 compared to 2006. The comparison showed that the Operational Self Sufficiency and Financial Self Sufficiency indicators of the 15 participating rural and community banks selected compared favorably to a control group that had not received capacity building assistance (Mel Consulting, Completion Report, August 2008). However the assessment of the PPAR mission, for later years, shows that there was not a significant difference between the performance of the 15 participating rural and community banks and the performance of the entire population of rural and community banks. Rates of return to equity (RoE)—were in the range of 25-30 percent, with marginally greater rates for the sample firms that benefitted from training compared to the overall population of rural and community banks. Rates of return on assets (RoA) for the two groups were essentially indistinguishable.[17]

4.11 Under the 'institutional support to the Ministry of Finance and Bank of Ghana' component, training was provided to the Banking Supervision Department staff in the Bank of Ghana to improve their ability to oversee the microfinance sector. There is some evidence

[16] It should also be noted that IFAD's follow up project – Rural and Agricultural Finance Project - built on the lessons learnt from the present project. In particular it significantly improved the institutional arrangements for the creation, management and oversight of a Capacity Building Fund which replaced the training fund under the present project. Key concepts include the need to conduct Training Needs Assessments, which had been ignored in this project, ensure that training manuals reflected these assessments and that their content was constantly updated and improved. Selection and oversight of trainers became more rigorous, and inefficient trainers were weeded out. A better cost sharing approach was instituted, and the Capacity Building Fund became autonomously managed with independent management.

[17] On the basis of this experience, IFAD's Rural and Agricultural Finance Project extended the training initiative to a total of 45 rural and community banks, with a view to subsequently making the service available to them all, on a cost sharing and performance adjusted basis, in which weaker banks would however pay less than better performing ones (thanks to a subsidy provided by DANIDA). During the March 2012 PPAR mission, the Bank of Ghana reported that the good performance with regard to their supervision of rural and community banks has been maintained since the closure of the project thanks in part to the electronic reporting and analysis of primary rural and community bank returns by the ARB Apex Bank. This has even permitted the Bank of Ghana to envisage the introduction of selective on-site inspection

of improved supervision of the Apex Bank and associated rural and community banks. First, in terms of capital adequacy, there were 16 ‘unsatisfactory’ rural and community banks, out of 127 banks in total, at project-end, compared to 28 (out of 105) in 2001. Rates of supervision also improved. In 2002, the Supervision Department inspected only 69 rural and community banks but it inspected all 115 rural and community banks in 2003. A 100 percent inspection rate was subsequently attained again in 2006, and has been maintained since then. According to the ICR, the training provided by the project to the staff of the Department enhanced their skills in supervision and examination, and the production of more timely reports.[18] Third, remedial measures have also been taken to address distressed rural and community banks (including the closure of some failed rural and community banks) which according to the ICR would have taken longer to put in to place prior to project interventions.

4.12 The project contributed to the drafting of some significant legislation and regulation. The Microfinance Unit in the Ministry of Finance created the Microfinance Forum and supported the finalization of the microfinance Policy for presentation to the Cabinet. However, the guidelines were not adopted at the time of the project closure. Likewise the project contributed to the preparation and adoption of the rules and regulations pertaining to the Association of Rural Banks Apex Bank which were adopted in 2006, a year before project closure; and the preparation of the Non-Bank Financial Intermediaries Act, which was adopted in 2008; one year after the closure of the project. Regulations for Credit Unions are still outstanding. Policy co-ordination efforts were not fully effective as the Microfinance Guidelines prepared in 2006 were not issued till after four years after the close of the project. Even now its implementation is slow. These guidelines urged all microfinance companies to obtain a license within six months; however, out of 600 Micro-Finance Institutions only 173 had complied and obtained a license by end 2012 (IMF, 2013). The Bank of Ghana is currently drafting new guidelines to require microfinance companies to comply gradually with higher capital requirements. (IMF, 2013). Also, a study of the Agricultural Development Bank that the project was expected to conduct was not undertaken. The project, however, helped carry out the following reforms: (i) reform of the regulations pertaining to the size of the primary and secondary reserve requirements of the rural and community banks which were key to enabling the rural and community banks to increase the amount of their loans; and (ii) the new Banking Law (2004) to the extent that it affected rural and community banks and the ARB Apex bank.

4.13 Policy coordination between the Bank of Ghana and the Microfinance unit however lagged. The Bank of Ghana however continues to insist that it alone has the mandate to inspect and supervise, unless it chooses to delegate this authority to the ARB Apex Bank, as foreseen in the relevant regulations, which it has not yet done to date.

4.14 Finally, major policy issues remained pertaining to government subsidies and directed lending. The presence of such subsidies and directed credit impacted the project’s ability to achieve the intermediate objectives of widening and deepening of sustainable rural finance.

[18] During the March 2012 PPAR mission, the Bank of Ghana reported that the good performance with regard to their supervision of rural and community banks has been maintained since the closure of the project thanks in part to the electronic reporting and analysis of primary rural and community bank returns by the ARB Apex Bank. This has even permitted the Bank of Ghana to envisage the introduction of selective on-site inspection

Given Ghana's track record of subsidized and directed lending it may have been insufficient for this project team on its own to effectively address the issue through project activities and project level policy dialogue. This should have been a subject for high level dialogue between the Bank and the government.

Intermediate Objectives

WIDENING OF FINANCIAL INTERMEDIATION

4.15 The indicators to measure this intermediate objective were: (i) the total number of new clients (depositors and borrowers) and (ii) new deposits in Rural and Community Banks. As Table 4 shows, the baseline for the number of clients was 1.268 million and the end of project target was 3.9 million, implying an annual growth rate of about 20.5 percent. The actual number of new clients at the close of the project was 3.261 million; about 83.6 percent of the target. The data however should be interpreted with the caveat that it is not clear how many of these "new" clients were actually new and not repeat clients or how much of this increase can be attributed to the project

Table 4. Intermediate Outcome Indicators 2001 - 2011

INTERMEDIATE OUTCOME INDICATORS	Baseline	Target	Actual	Actual	Target	Actual	Actual	Actual
	2001	2007	2007	2011	2001-2007	2001-2007	2008-2011	2001-2011
	Values				Annual percentage change			
Number of RCB clients (depositors plus borrowers) --	1269	3.900	3261	4570	20.5	17.0	8.8	13.1
Number of depositors (thousands)	1129	na	2671	3766	na	15.4	9.0	12.2
Number of borrowers (thousands)	139	na	590	804		27.2	8.0	18.4
Deposits in rural banking system -- millions of new cedis	38.1	300.0	293.2	910.4	41.1	40.5	32.7	37.3
Loans -- millions of new cedis	14.5	200.0	172.1	471.7	54.9	51.0	40.0	41.7
Short Term Investments	24.7	none specified	105.2	336.6	none specified	27.3	47.3	29.9
Loan to Deposit ratio for RCBs	38.1	66.7	58.7	51.8				

Note: In the ICR, the target for new loans was set as 200 for 2007 and the loan deposit ratio was set to 50 percent. These numbers are inconsistent, so the PPAR has reset the loan to deposit ratio to 66.7 (ie 200/300)

4.16 The nominal value of deposits in Rural and Community Banks grew from 38.1 million cedis in 2001 to 293.2 million cedis at the end of the project, equivalent to an annual growth rate of 40.5 percent over the project period. The project targets were thus nearly attained both in terms of values (300 million cedis) and growth rate (40.5 vs. 41.1 percent in annual terms) for the period 2001-2007 and continued in the period 2008-2011, though at a slower rate (32.7 percent per year), with total deposits attaining 910 million cedis at end 2011 and 1.185 at end 2012. Furthermore, over the period 2007-11, deposits in all regions grew between 27 and 51 percent over the entire period, or an average of around 33.6 percent per year. However, it is not clear how much of the increase was from new clients or attributable to project activities.

4.17 According to a World Bank study (Nair and Fissa, 2010) during the same eight-year period that coincided with the present project, the total amount of deposits for rural and community banks, adjusted for inflation, grew from cedis 17.3 million (US$5.8 million) to cedis 100.6 million (US$77.5 million). These figures represent real average annual growth rates of 4 percent for deposits. The difficulty remains however that the extent of attribution to the project is not clear.

4.18 The ICR also points out that women consistently accounted for 45 percent of depositors and about 40 percent of borrowers of rural and community banks. By the end of the project, women accounted for 40 percent of members of Credit Unions and 60 percent of clients of susu collectors. This was significant outreach, though still short of the PAD target of 330,000 additional clients for Rural and Community Banks and other Rural and Micro Financial Institutions (RMFIs) of whom 200,000 would be women.70 percent of Susu collectors' clients were also to be women. Furthermore, as Table 5 shows in 2007 the projected outreach was largely met both for the rural poor (actual of 95,900 vs. a target of 100,000) and for the number of women (44,700 vs. a target of 60,000).

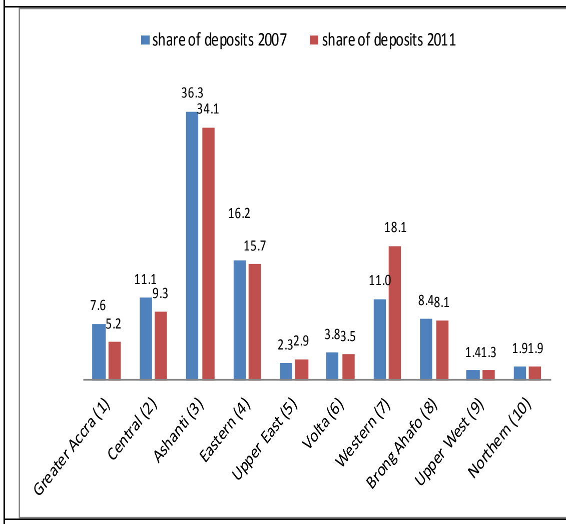
Table 5. Increase in number of poor and rural poor clients (2001-2010) in thousands

	Increase in Number of Depositors		Percent of women	Increase in Number of women clients		% in lowest 2 income quintiles	Increase in Number of poor women		Increase in number of poor rural women	
	2001-2007	2001-2010		2001-2007	2001-2010		2001-2007	2001-2010	2001-2007	2001-2010
Savings & Loans	172.9	815.8	40	69.2	326.3	0	0.0	0.0	0.0	0.0
Credit Unions	131.0	235.3	42	55.0	98.8	24	13.2	23.7	5.9	9.5
NGOs	0.0	110.2	84	0.0	92.5	6	0.0	5.6	0.0	2.2
Susu Collectors*	256.3	533.8	68	174.3	363.0	0	0.0	0.0	0.0	0.0
Subtotal	560.1	1,695.1	52	291.3	881.5	3	9.7	29.3	4.4	11.7
RCBs	1,682.9	2,531.9	42	706.8	1,063.4	33	233.3	350.9	105.0	140.4
Total Clients	2,243.1	4,227.0		998.1	1,944.8		242.9	380.2	109.3	152.1

Source: GHAMFIN Poverty Estimates and IEG mission estimates

4.19 In addition to the above project indicators, the PPAR also looked at regional variations (including by population density) in deposit growth. As Figure 3. Share of Deposits by Region and Population Density*2006 & 2011 shows the share of deposits generated in the three highest population density regions (Greater Accra, Central Ghana, and Ashanti) declined, while it increased in the remaining less populated regions (Eastern, Upper East, Volta, Western, Brong Ahafo, Upper West and Northern). To the extent that lower population density can be considered a proxy for regions with greater percentage of the population living in rural areas, the evidence suggests that there was an increase in the share of deposit albeit small since the project closing. In particular, it is clear from Figure 3 that only a very small percentage of depositis were generated in the three poorest regions (Northern, Upper East, and Upper West) where the poverty rates are two to three times the national average of 28.5 percent.

Figure 3. Share of Deposits by Region and Population Density*2006 & 2011



**Note*: Regions are presented in descending order of population density from left to right

4.20 However, there is no basis to show how even this small increase in the share of deposits could be attributed to the project. These regions also had poverty rates of 52 percent, 70 percent and 88 percent respectively. (GSS, 2007). In comparison the poverty rates in Greater Accra and Eastern region- the regions with lowest poverty incidence- were 12 and 15 percent respectively.

4.21 The PPAR also looked at the increase in the number of Rural and Community Banks in the northern half of the country (the Northern, Upper East, and Upper West regions) where rural poverty is concentrated. The number of Rural and Community Banks in these provinces increased from 8 in 1999 to 11 out of 126 in 2006 to 15 out of 133 in 2011.[19] ARB APEX Bank: http://www.arbapexbank.com/rcbs.php downloaded on 1August 2013 Despite this increase, the percentage of Rural and Community Banks in these three regions, which account for 18 percent of the country' population, is still low having increased from 7.2 percent of all Rural and Community Banks in 1999 to 11.9 percent in 2011. Yet, this increase cannot be attributed to project activities as it did not specifically include any strategies aimed at the northern region.

[19] ARB APEX Bank: http://www.arbapexbank.com/rcbs.php downloaded on 1August 2013

4.22 The relatively low increase in banking activity in these areas is also underscored by data on the level of deposits and number of depositors.[20] Table 6. Deposits and Number of depositors (Ghana and Northern Provinces, 2009 and 2012)shows that only 5.7 percent of deposits are generated in the Northern provinces, coming from 5.8 percent of the total number of depositors. The evidence suggests that Rural and Community Banks have only had a small presence in the northern part of the country, where rural poverty is most concentrated, relative to the overall population.

Table 6. Deposits and Number of depositors (Ghana and Northern Provinces, 2009 and 2012)

	2009		2012	
	Deposits (millions of cedi)	Number of Depositors	Deposits (millions of cedis)	Number of Depositors
Total for country	460.16	2,941,117	1,177.13	3,983,225
North	8.50	60,038	23.30	90,120
Upper East	12.24	71,410	38.92	108,776
Upper West	5.44	39,291	16.54	41,172
Total Northern Provinces	26.18	170,739	78.76	240,068
Northern Provinces (% of Total)	5.69	5.81	6.69	6.03

Source: ARB Apex Bank

4.23 While the project did not track outreach to agriculture, available evidence suggests that Rural and Community Banks outreach to small farm holders (as measured by number of Rural and Community Bank branches relative to the number of farmers per region) was disproportionate. Thus, the North region which accounts for 12 percent of total farmers had only 1 percent of total Rural and Community Banks and the Upper East region which has 10 percent of the farmers had only 2 percent of the Rural and Community Banks.[21] Overall too as stated in para 4.2 the Living Standards Measurement Survey published in 2008 (albeit based on data collected up to two years earlier) shows that a mere 8 percent of rural households in Ghana had access to credit for financing agriculture.

4.24 The project did not track poverty outreach. The project appraisal document (pages 24-25) estimated that the present project would lead to an increase in financial access of the rural poor of about 100,000 during the lifetime of the project (i.e. by end 2007) of which about 60,000 would be women. About 50 percent of these new clients would be affiliated to Rural and Community Banks and the rest to other Rural Microfinance Institutions. This was not tracked by the project - “poverty” and the “poor” were not defined, which implied that it would be difficult to measure changes in these dimensions.

4.25 The PPAR used findings from the Ghana Microfinance Institutions Network (GHAMFIN) Microfinance Poverty Outreach Assessment (2006)[22] to make an approximate

[20] Data are only available for the period 2009-2012

[21] Mann e. al. 2010: Ghana Rural Finance System and Climate change

[22] The study covered 25 RMFIs, including 9 rural and community banks (RCBs), 4 financial non-governmental organizations (financial NGOs), 4 Credit Unions (CUs), 4 savings and loan company (S&L), and 4 susu collector

assessment of the poverty outreach[23] of the project though the outcome cannot all directly be attributed to the project activities. The results here should be read with the caveat that sample Rural and Community Banks were those that have microfinance programs selected, so the results may not hold for all Rural and Community Banks (though this may show that the Rural and Community Banks with the right program have the potential to reach the poor).

4.26 One finding of the PPAR is that the number of the rural poor clients for each category of rural microfinance institutions increased over the period 2001-2007 and 2001-10. And the Rural and Community Bank's (and the financial NGO's) poverty outreach compared to the susu collectors and the credit unions was deeper and reached all segments including the lowest two quintiles. One difference between these institutions was that while both Rural and Community Banks and the financial NGOs had access to external funds– government and donor funds for Rural and Community Banks and donor funds for financial NGOs– Susu collectors and credit unions intermediate based on their member or group funds and their peer selection methodologies tend intrinsically to exclude the poorest.

4.27 The evidence for government funds intermediated through Rural and Community Banks was mixed.[24] Among four Rural and Community Banks which had both their own and government programs, the latter reached poorer clients in two cases and less poor clients in the other two. One reason for this was the pre selection of beneficiaries by the Government. Donors programs tend to have the same poverty outreach as 'own' programs (perhaps because they were able to use their existing methodologies to implement the donor programs). Thus access to government funds also had the disadvantage of political interference in client selection. Such loans (particularly where the clients were pre-selected and where the Rural and Community Banks were not allowed to follow their own selection criteria) were largely perceived as grants and not repaid. In one such instance (the Poverty Alleviation Fund); the loan repayment rate was a mere 1 percent. At the same time when the Rural and Community Bank followed its own methodology for the government program (Women in Development) the repayment rate was 73 percent, comparing favorably with the Rural and Community Bank's own group repayment rate (77 percent).

4.28 A more recent (2009) study[25] suggests that Rural and Community Banks typically follow two approaches: group lending and the committee approach with two different types

[23] The poverty study applied the microfinance poverty assessment tool of the Consultative Group to Assist the Poor (CGAP) to provide an index of relative standard of living (or "poverty") based on simple socio-economic indicators, and used a non-client control group to ensure that the index yielded similar attributes as in previous national studies of poverty (GHAMFIN, 2006)

[24]The study cites an interesting comparison is between two RCBs that have virtually the same poverty profile of their own clients, but completely different profiles for the government programs. The government program pushes Rural Bank 'A' to reach substantially more clients in the two lowest quintiles, lowering the poverty index from 0.50 to 0.27; while the government program in Rural Bank 'B' fails to reach the two lower quintiles that the Bank was reaching on its own, and is concentrated in the two highest quintiles, raising the index from 0.56 to 0.80. The difference between the two is that the clients for the latter government program were pre-selected by the political authority providing the Poverty Alleviation Fund. In the former case, the Rural Bank was able to select the clients itself in order to access the funds, provided that it targeted poor women.

[25] K. Awusabo-Asare, S. K. Annim*, A. M. Abane and D. Asare-Minta. 2009. "Who is reaching whom? Depth of outreach of rural micro finance institutions in Ghana" International NGO Journal Vol. 4 (4), pp. 132-141, April 2009. Available online at http:// www.academicjournals.org/INGOJ ISSN 1993–8225 © 2009 Academic Journals

of poverty outreach.[26] In the group lending programs the very poor are not included, as the groups follow peer selection methods and typically include the economically active peers (with capacity to repay). The second or the committee approach is basically followed by the government and donor-supported programs. This approach has the potential of reaching the poor as it targets members of a community with certain characteristics for support. Under this approach the short listing of potential clients is by a committee consisting of technical advisers, representative of the district assembly, loan officers of the rural banks and representative of the donor institution. However, government-supported loans tended to be subjected to political and social interferences which also affect the recovery of the loans, since they create the impression that such loans are for political patronage and, therefore, need not be paid back.

4.29 The study concludes that this may partly account for the pattern observed among the potential clients of rural banks. The few banks which showed better outreach than the rest in terms of reaching the poor are those that are located in relatively poor areas that therefore deal with poor people.[27] Thus the mean poverty indices of Rural and Community Banks varied between -1.157 (in the poorer northern region) and 0.561 (in the coastal region). Factors defining the different market niches of these banks thus include: source of funds, location, strategies for outreach and mission of the institution. Moreover, it is important to note that this increase in outreach cannot all be attributed to the project and that in part the overall increase (as seen in all types of financial institutions) is attributable to buoyant macro-financial trends. Overall, the achievement of this intermediate objective is rated as Modest.

INTERMEDIATE OBJECTIVE 2- DEEPENING OF FINANCIAL INTERMEDIATION

4.30 The project's two indicators for the achievement of this intermediate objective were: i) the volume of loans and ii) the loan to deposit ratio. The baseline to measure the increase in the volume of loans was 14.5 million cedis in 2001 and the end of project target was 200 million cedis. The actual volume of loans (nominal) at the end of 2007 was 172.1 million, that is, 86 percent of the target (i.e. a shortfall of some 14 percent). Growth continued at somewhat lower rates in the period 2008-2011. According to a World Bank study (Nair and Fissah, 2010) during the period 2001-2008 (the period that coincided with the present project) total advances adjusted for inflation grew from cedis 7.1 million (US$2.4 million) to cedis 72.8 million (US$56.1 million) and the overall growth rate was 11 percent.

4.31 As regards the loan to deposit ratio, the baseline was 38.1 percent and the end of project target was 50 percent.[28] The rise in loan/deposit ratios during the 2001-2007 periods was significant at 58.7, and it remained at 51.8 until 2011. This increase however should be

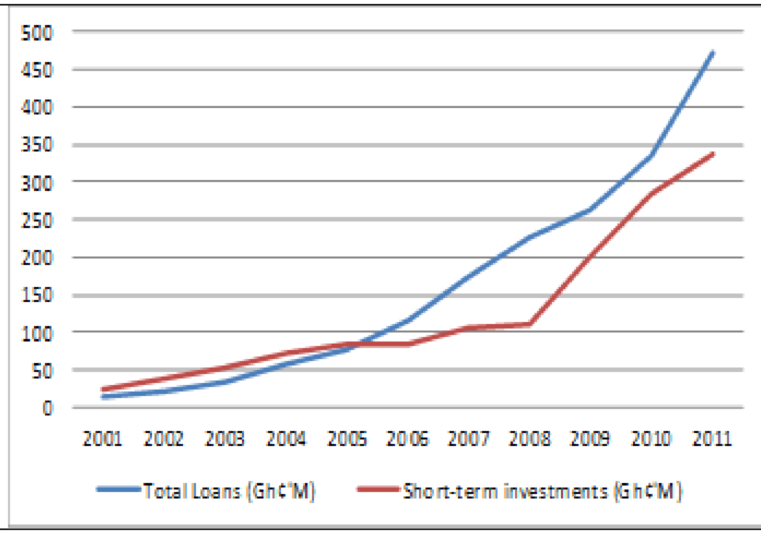
[26] Using the Microfinance Poverty Assessment Tool, data on 2704 households comprising of 1104 and 1600 non-clients and clients respectively, were collected to compute the household level relative poverty scores.

[27] In particular the study finds that the RCBs in the northern parts reach the poorer populations but that the number of RCBs in the north is small. One of the recommendations of the study is thus that microfinance is most likely to address national poverty when it is located in the northern zone or rural areas; hence location-based incentives may for Rural Microfinance Institutions are warranted to achieve poverty reduction objectives.

[28] The PPAR however corrected this to 66.7 percent (as a ratio of deposit target of 200 and loan target of 300).

interpreted with the caveat that falling interest rates on Treasury bills during this period also contributed to the increase in lending and overall decrease in short term investment (Figure 4).[29] According to the World Bank study (Nair and Fissah, 2010) "this increase became necessary because of the falling interest rates on Treasury bills during this period, the significant efforts taken under the present project to increase lending also likely contributed to this growth."[30]

Figure 4. Evolution of Short Term Investments and loans/Advances 2001-2011



Source: ARB Apex Bank

4.32 Although the project indicators capture the overall increase in lending, these indicators do not measure this increase relative to GDP, which is a standard measure of financial deepening. The PPAR, therefore, also looked at the share of domestic credit to GDP, which shows an overall increase from 12.5 percent in 2003 to 14.5 percent in 2007. In addition to macroeconomic stability, part of this increase was due to the effect of financial sector reforms; a reduction in the reserve requirement and buoyant demand conditions. In recent years, private credit has been stable at 15 percent of GDP.[31] However, this increase largely reflects banking sector lending which as discussed dominates the financial sector. Furthermore, the share of Rural and Community Bank deposits and credit to GDP, as Table 7 shows, increased but still remains very small.

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29 Nair and Fissah, 2010

30 Rates on the 91-day declined to 10.8 per cent by end-December 2007 from 38.1 percent in end 2000. Average lending rates of banks however was 23.8 per cent in 2007 compared to 30 percent in 2000.

31 IMF Article IV, 2013

Table 7. Changes in Poverty, Per Capita Income and Rural Credit Indicators

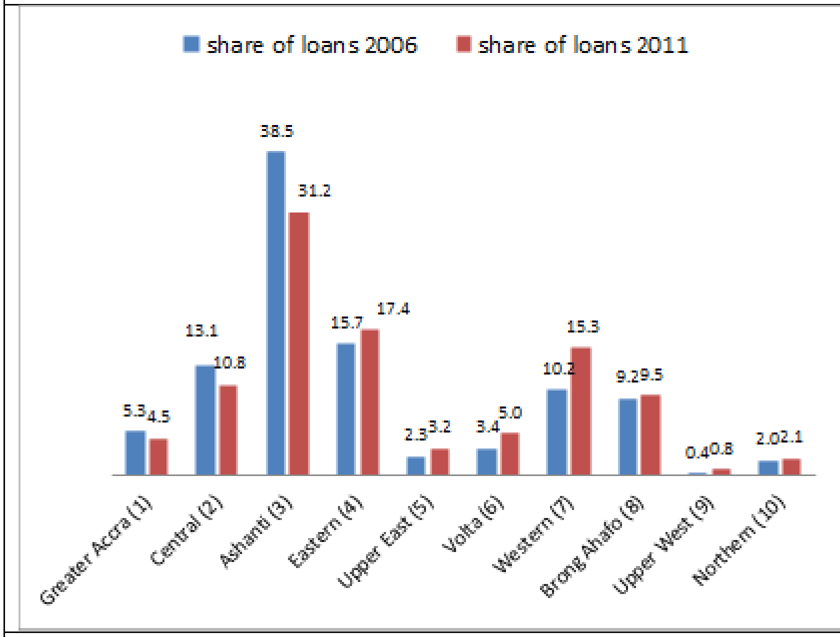
	1999/2000	2005/2006	percentage change
Poverty rate			
National	39.5	28.5	-27.8
Urban	19.4	10.8	-44.3
Rural	49.6	39.2	-21.0
GNI/capita (US$)	340	600	76.5
RCB deposits/GDP	0.36	0.615	70.8
RCB credits/GDP	0.87	1.21	39.1

Source: Ghana Statistical Service, ARB Apex Bank

4.32 Another traditional measure of financial deepening that the PPAR looked at was the ratio of money (M2) to GDP which doubled after 2004, reaching 43 percent of GDP by the end of 2007. Much of the increase was funded by an increase in demand and savings deposits. The banking system as discussed has grown rapidly, fueled by fast credit expansion. Banks now account for about 70 percent of financial assets. Rural and Community Banks, with an asset share of 3 percent, have made a growing but small impact.

4.33 According to the project appraisal document the project will target the rural and the poorest segments even though the project's outreach was national (PAD, Pg. 15). This PPAR also looked at the percentage change in lending in the different regions as a measure of the achievement of the intermediate objective. In the period 2006-2011, loans grew in all regions in a range of 23.5 to 57 percent at an average annual rate of 29.5 percent. However, as Figure 5 shows the three poorest regions (Northern, Upper East, and Upper West) accounted for only a very small percentage of the loans.

Figure 5. Share of Loans by Region (2006 & 2011)



Source: APEX Bank

4.34 The project did not have an indicator to track loans to agriculture. A World Bank study based on data from 11 sample Rural and Community Banks found that the largest lending categories were trading and others (42 percent and 41 percent, respectively).[32] Salary loans are typically included in the "other" category and micro-finance in the trading category. The proportion of loans for agriculture at 9 percent was, however, particularly small.[33] Since the close of the project, agricultural loans recorded the lowest rate of growth (5.1 percent) during the period 2007-2011. The Living Standards Measurement Survey published in 2008 showed that a mere 8 percent of rural households in Ghana had access to credit for financing agriculture (see para 4.2 and 4.23). If national level indicators are observed, the project does not seem to have contributed much to mitigate the problem of low access to credit for agriculture – but given its small size it could not have been expected to make a large and measurable contribution, despite somewhat overambitious development objectives.

4.35 Non-performing loans, according to the ICR, were less than 12 percent of the total lending portfolio at project closing down from 20 percent at the start of the present project. However, rural and community banks faced high non-performing loans and in the absence of credit bureaus multiple borrowings and over-indebtedness cannot be ruled out given the growth of volume of loans. One study of a sample of rural and community banks suggests that non-performing loans were indeed an issue at in rural and community bank performance. The average portfolio at risk (PAR) > 30 days was 16 percent and the PAR > 365 days,

[32] Nair and Fissah, 2010

[33] According to Nair and Fissah (2010) this is an underestimate because a significant portion of microfinance and personal loans are used for agriculture

which is a good proxy for the loan loss rate because loans that are delinquent for more than a year have little chance of being repaid, is 3.5 percent (Nair and Fissah (2010)). A separate sample analysis of 24 rural and community banks by GHAMFIN (2007) also shows that rural and community banks have higher ratios of nonperforming loans than do savings and loans (S&L) and financial NGOs in Ghana. The achievement of the intermediate objective of financial deepening is thus rated Modest. IEG's overall rating of the project is thus based primarily on the ratings given to the two intermediate objectives.

Final Objectives

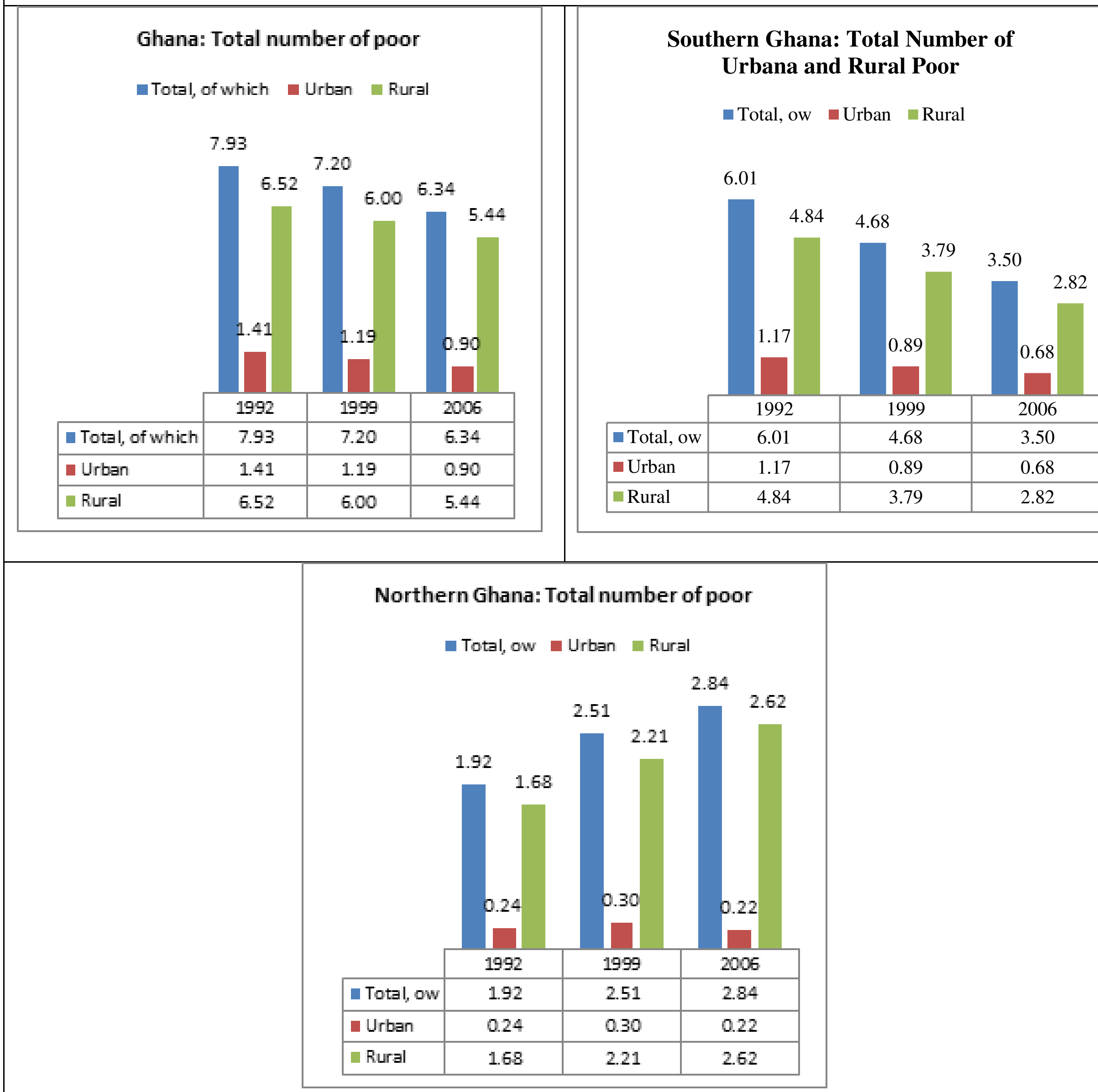
4.36 The PPAR also reviewed the extent to which the 'high level' final objectives may have been achieved, although it is recognized that the project could not be expected to make a measurable contribution to these broad goals. As such, there were no project indicators to measure the achievement of the project's two final objectives of "growth" and "poverty reduction." The project's impact was to have been measured by increased household income (PAD Pg.15) however the project did not track this impact on employment, investment or income generation through an impact evaluation. Moreover, such a project, in isolation cannot be expected to make a meaningful contribution to such broad goals.

4.37 Overall economic growth in Ghana has accelerated in recent years. During the period 2006–10, real GDP growth averaged 6.5 percent. However, this growth was on the back of the services and industry sectors of the economy and because of positive terms of trade for its exports (mainly for cocoa and gold), which helped offset higher import prices (particularly fuel and food).For the agriculture sector, the growth rates were generally attributed to cocoa production and marketing. Livestock, fisheries and food crops sub-sectors (predominantly rural and poor sub-sectors) on the other hand, have not shown any appreciable improvement.

4.38 Likewise, Ghana has achieved impressive poverty reduction in the recent past (Figure 6). Between 1998/9 and 2005/6, the proportion of people below the national poverty line decreased from 39.5 to 28.5 percent of the population. Poverty in Ghana however has remained a disproportionately rural phenomenon up till now. Eighty-six percent of the total population living below the poverty line in Ghana is living in the rural area. This is slightly higher than the figure as at 1998/99 (83 percent) (GSS, 2007). The poverty reduction also significantly varied at the regional level. In the South, the total number of poor declined from 6 million to 3.5 million over the period 1992-2006 reflecting decreases in both urban and rural poverty, especially the latter. But in the North, the total number of poor increased from 1.92 million in 1992 to 2.51 million in 1999/2000 and 2.84 million in 2006, reflecting a significant increase in rural poverty (1.92 million in 1992 and 2.84 in million in 2006) and a minor decrease in urban poverty (from 0.24 to 0.22 million).

4.39 The 2010 FinScope household survey on financial access finds that 59.5 percent in the Upper West, and 53 percent in the Northern region had no access to any financial product (formal or informal) compared to 30 percent in the Accra region. However, as mentioned earlier, given the project's size and scope, the objectives of poverty reduction and growth were over ambitious and any attribution to the project would be difficult.

Figure 6. Urban and Rural Poverty in Ghana, nationally and by region (1992-2006)



	1992	1999	2006
Total, of which	7.93	7.20	6.34
Urban	1.41	1.19	0.90
Rural	6.52	6.00	5.44

	1992	1999	2006
Total, ow	6.01	4.68	3.50
Urban	1.17	0.89	0.68
Rural	4.84	3.79	2.82

	1992	1999	2006
Total, ow	1.92	2.51	2.84
Urban	0.24	0.30	0.22
Rural	1.68	2.21	2.62

Source: World Bank, Report No: 53991-GH- Tracking Poverty in Northern Ghana

5. Efficiency

5.1 An assessment of whether the costs involved in achieving the project objectives were reasonable in comparison with the benefits and within recognized norms cannot be based on traditional measures of efficiency for various reasons. As pointed out, the project had no objective measure of achievement of the two project objectives of "Growth" and "Poverty Reduction." Moreover, since the project focused on capacity building, it is difficult to estimate an economic rate of return. Also, there is no information to compare the cost of the project with the cost of other projects that attempted to achieve similar outcomes. The

PPAR's assessment of efficiency is, therefore, based on the project's initial delays or cost overruns during implementation.

5.2 There were important initial delays in project implementation. The start-up was hampered following the elections as the new government wanted to review the project. The result was that conditions for project effectiveness (for IFAD and IDA) were met only after significant delays. For the IDA financing, this meant a lag of 16 months between approval and effectiveness. A second consequence was that what started out as joint financing ended up being somewhat out-of-step, a situation compounded by different approaches to project duration that meant IFAD and IDA projects closed at different times. The ICR noted that the project should have anticipated the delays due to the electoral cycle.

5.3 There were also design flaws that affected the use of project funds. The general training component emphasized numbers over quality and was inefficiently implemented with the result that it ran out of budget after reaching only a quarter of the target number of recipients (this is the target as revised at Mid Term Review; using the original target, the project reached only 3 percent). Also, the target of training 8,000 institutions meant training 4 per day continuously for six years which not surprisingly proved difficult to implement. Despite flags having been raised about design flaws at project inception, no major changes appear to have been undertaken until the Mid Term Review, three years into implementation. By the time changes were made, funding was largely depleted.

5.4 Based on the above considerations the efficiency is rated as **Modest**.

6. Ratings

Outcome

6.1 The outcome rating for the project is moderately unsatisfactory. The relevance of the project's objectives was substantial. However, the relevance of design is rated modest. Some of the project components, particularly the linkage component and the training, were not well-designed and resulted in implementation challenges. The M&E system did not have any indicators to measure the achievement of the project objectives. The project's final objectives were too ambitious given the size of the project and attribution was difficult in the absence of appropriate indicators to track achievement and any impact evaluation. In terms of intermediate objectives, overall, there is insufficient evidence presented that the broadening and deepening of financial sector intermediation that could be attributed to the project had a significant impact on either rural poverty alleviation or economic growth. On the contrary, what evidence there is suggests that it did not. The analysis undertaken by the PPAR shows that the expansion of financial intermediation was limited in the lagging regions and among poor populations as well as for agriculture, and that poverty in these regions' population segments in fact increased. Efficiency is rated modest because of project design features and implementation delays that led to the inefficient use of funds.

Risk to Development Outcome

6.2 The risk to development outcome is rated as Moderate.

6.3 The ICR rated the risk to development outcome as moderate mainly on account of the uncertain future of the Association of Rural Banks Apex Bank and the transfer of responsibility without commensurate resources from the Bank of Ghana to the ARB Apex Bank for the supervisory functions of Rural and Community Banks, as well as the risks of subsidized lending that distorted the market. While the principal risk noted in the ICR, regarding the Apex Bank, is now low, other risks are now manifest. Therefore, on balance, overall risk remains moderate. The actual risks at the time of the PPAR are as follows:

6.4 *Risk that the Association of Rural Banks Apex Bank will not be able to contribute to the effective supervision of Rural and Community Banks*. While the ARB Apex Bank is now well established, and has a useful role, its authority remains circumscribed. The Association of Rural Banks Apex Bank has not only survived but has also continued to provide important services to its member banks (liquidity management, mobilization of funds, and training). However, the supervision of Rural and Community Banks- to which the Association of Rural Banks Apex Bank contributes through data collection- still needs improvement. The Association of Rural Banks Apex is tasked with some supervision tasks such as collection of data from all Rural and Community Banks on a quarterly basis and providing recommendations to the Bank of Ghana (which is the supervisory authority that conducts onsite inspections of Rural and Community Banks). The enforcement of its recommendations, however, is slow. Thus two Rural and Community Banks that the Association of Rural Banks Apex had recommended for closure to the Bank of Ghana two years ago are still not resolved.

6.5 *Risk that many Rural and Community Banks may face erosion of their small capital base as they have high NPLs and the required increases in the capital base are not effectively enforced*. Rural and Community Banks have seen a 40 percent growth of total assets in 2012, with 700 branches, and a potentially large customer base. Together with this strong asset growth, the NPL ratio for Rural and Community Banks reached 20 percent in 2012, which points to persistent weaknesses in the credit process. Of 136 Rural and Community Banks, five have not met the required minimum capital requirements and sixteen have a capital adequacy ratio below the required minimum (10 percent). Consolidation is difficult, however, as registries of shareholders for many Rural and Community Banks need to be updated and/or reconstructed. Concerned with the high NPLs that erode the already small capital base of Rural and Community Banks, the Bank of Ghana is proposing to increase the minimum capital of Rural and Community Banks from Cedis150, 000 to Cedis 300,000. However, the Bank of Ghana's previous (2008) increase in the minimum capital from Cedis 50,000 to Cedis 150,000 has yet to be implemented by some Rural and Community Banks.

6.6 *The risk of over-indebtedness in an environment of aggressive lending, high effective interest rates, multiple borrowings and lack of reporting to credit bureaus*. With effective interest rates that can go above 100 percent per annum, micro-lending activities also raise concerns of over-indebtedness especially as Rural and Community Banks do not report to credit bureaus (IMF, 2013). Several steps have been taken to mitigate this risk. The Bank of Ghana has engaged with the Association of Rural Banks Apex Bank to integrate Rural and Community Banks within the credit bureau used by commercial banks. The Ghana Micro Finance Institutions Network (GHAMFIN) has created a "Reference center", but the costs of access to information are perceived as too high by microfinance institutions (IMF, 2013). The Bank of Ghana is concerned with the quality of the portfolios of Rural and Community Banks which show a predominance of poor risk management practices and information asymmetry between lenders and borrowers which results in high interest charges and precipitates delinquency. The Bank of Ghana has been in touch with the Association of Rural Banks Apex Bank and the credit bureaus to work out modalities for Rural and Community Banks to submit data to the bureaus as required by law and also use the services of the bureaus to improve credit decision making. To date only 35 Rural and Community Banks are using the services of the credit bureaus. According to the Bank of Ghana, given that all the Rural and Community Banks are now computerized, extending the use of the credit bureaus should not be a problem. The Bank of Ghana is also considering penalizing Rural and Community Banks that fail to submit credit data and fail to use the services of the bureau in credit decisions.[34]

6.7 *Risk that the microfinance sector will continue to be subsidy dependent:* As noted at the time of the ICR, there was a risk that the microfinance sector would continue to remain subsidy dependent. Subsidized and directed lending by government continues through the Microfinance and Small Loans Center (MASLOC). A 2013 study on subsidy dependence shows that subsidy dependence is decreasing at very slow rate for the sector as a whole implying that the microfinance sector will continue to be subsidy dependent in the long term. The study finds that the Subsidy Dependence Index for Rural and Community Banks marginally increased from 0.1978 in 2003, to 0.2159 in 2007, giving an average annual increase of 0.004 (0.40 percent). Furthermore, the study also finds that though the rural banks receive subsidies from the Central Government their operational self-sufficiency index is good. However, the Rural and Community Banks experience relatively high bad debts and thus high proportions of portfolio-at-risk.

6.8 Overall, while there are a number of risks to development outcomes, the authorities are aware of the risks and are proposing to address some of them, and some risks noted at the time of project implementation are now low, for example in the context of the establishment of the ARB Apex Bank. However, many of the proposed changes have yet to be followed up and others, though in place for a number of years, have not been effectively implemented.

Bank Performance

6.9 Bank performance is rated **Moderately Unsatisfactory**.

QUALITY AT ENTRY

6.10 Quality at entry is rated **Moderately Unsatisfactory**.

[34] Government of Ghana: http://www.ghana.gov.gh/index.php/2012-02-08-08-32-47/general-news/2191-minimum-capital-of-rcbs-to-go-up-bog 18 August 2013

6.11 The project's objectives were aligned with the country's priorities and IDA's assistance strategy. However, the project quality at entry had weaknesses:

6.12 Creating linkages between formal and informal institutions was an innovative idea, inspired by a similar program in India. According to the ICR, however, this was included as an "afterthought" without testing its suitability for the local context through a pilot or through stakeholder consultations. The roll-out and support were also not appropriately planned. For example, the fact that informal community based organizations and the formal Rural and Community Banks both competed for the same market segment and were not in complementary roles was not taken into consideration. Thus, the project promoted innovative ideas but did not appropriately think through them or plan their implementation.

6.13 The details of the microfinance training component were not well developed. The types of training to be given to the end users and the numbers to be trained were not clearly specified. Many people interviewed by the PPAR mission thought that the initial target was to train 8000 Self Help Groups and 300,000 individuals, unrealistic targets for a six year project, which are not properly justified in the project document. The target of training 8,000 institutions would have meant training 4 per day continuously for six years which not surprisingly proved difficult to implement. Further, many of the trained Community Based Organizations had nothing to do with financial services. Despite flags having been raised about design flaws at project inception, no major changes appear to have been undertaken until the mid-term review, three years into implementation. By the time changes could be made, funding was largely depleted.

6.14 The project was expected to increase outreach for agriculture and the lagging rural regions but the design did not include any strategies for doing so either through innovative products or any region specific approaches that addressed the risks of serving/ developing these markets for the financial institutions. Not surprisingly the outreach to both agriculture and the lagging regions remained low.

6.15 Finally, perhaps reflecting common practice in the World Bank at the time, the project showed shortfalls in its results framework and monitoring and evaluation framework. There were no indicators to track the achievement of its stated objectives and no evaluation was planned to measure the impact. The absence of a workable M&E framework meant that the issues that arose during the implementation could not be appropriately addressed.

QUALITY OF SUPERVISION

6.16 Quality of Supervision is rated as **Moderately Satisfactory**.

6.17 IDA supervised both the IDA and IFAD financed components (IDA was designated a cooperating institution by IFAD). In addition, the majority of supervision missions included either IFAD-appointed consultants and/or the Country Program Manager. AfDB did not have a country office and chose to undertake its supervision missions on a standalone basis. A strong rapport was established with the Government of Ghana and the Central Bank.

6.18 The IDA team was proactive in identifying weaknesses and challenges early on; in particular those relating to the weakness of (i) the first (linkage) component and (ii) the M&E

system. However, it was not until the mid- term review, three years later, that it was able to adopt a somewhat enhanced M&E framework - although as discussed in section 2 did not provide an adequate basis for assessing the achievement of intermediate and final objectives.

6.19 The project had two supervision missions per year. Supervision performance with respect to fiduciary issues was satisfactory (there were none of significance). Aide-Memoires were substantive, informative and generally contained useful advice. The supervision reports, however, rated implementation progress as satisfactory, despite problems. Earlier acknowledgement may have been useful.

6.20 The supervision team did attempt to conduct policy dialogue with the government to address the risks of directed and subsidized government credit posed to the sustainability of private sector microfinance initiatives. However, the project team was not particularly successful in this as the government's subsidized and directed lending continues. Elevation to higher levels of dialogue between the authorities and Bank management would possibly have yielded better results.

6.21 Given the mixed overall picture, with regular supervision (though somewhat overoptimistic supervision reports), no fiduciary issues, and constructive dialogue with the authorities at the project level, coupled with, on the other hand, limited and partial attention to the M&E issue till the Mid- Term Review, limited high level policy dialogue by Bank management, supervision performance is rated moderately satisfactory.

6.22 Given Moderately Unsatisfactory quality of design and Moderately Satisfactory quality of supervision, overall Bank performance is rated **Moderately Unsatisfactory**, in accordance with IEG/OPCS harmonization criteria.

Borrower Performance

GOVERNMENT PERFORMANCE

6.23 Government performance is rated as **Moderately Unsatisfactory**.

6.24 On the positive side, overall commitment to the operation remained strong, and the adoption of new legislation and regulations pertaining to (i) the Association of Rural Banks Apex Bank was undertaken. On the other hand, the Government failed to approve the national microfinance policy, so that at project closure the microfinance sector still lacked a clear policy framework. The policy was finally adopted in 2011 but its implementation has been slow. The legislation pertaining to the nonbank financial intermediaries was adopted in 2008; one year after the closure of the project and the law for Credit Unions has not been finalized. A further weakness was the decision of the government to not fully integrate the Microfinance and Small Loans Center (MASLOC) into the Apex structures, which allows the government to administer micro-finance programs at less than market interest rates without effective peer oversight. MASLOC was set up in the year 2006, one year before the close of the project. As para 6.20 shows Governments' subsidized and directed lending continued throughout the project period. This undermined unsubsidized microfinance through other institutions, potentially undermining the sustainability of project outcomes. Finally, the delay from approval to effectiveness, following the inauguration of the new government, was unnecessarily long and delayed implementation.

IMPLEMENTING AGENCIES PERFORMANCE

6.25 Implementing agency performance is rated **Moderately Satisfactory**.

6.26 The Bank of Ghana, which was the primary implementing agency for the project, remained committed to the project's objectives throughout implementation, although its role was primarily one of oversight rather than active leadership. The Banking Supervision Department at the Bank of Ghana hosted the project implementation unit and effectively coordinated the co-financing from IFAD and IDA with the parallel financing from AfDB. However, as pointed out in para 3.4 due to effectiveness delays what started out as joint financing between IFAD, AfDB and IDA ended up being somewhat out-of-step as these respective projects started and closed on different dates. And although an output of the present project rather than an implementing agency, the Apex Bank also played a crucial role as a conduit for project activities directed at its Rural and Community Bank members.

6.27 Initially, performance of the Micro Finance Unit— the department within the Ministry of Finance- in charge of implementing the microfinance component—was weak. As discussed in para 3.5, the microfinance training was not appropriately implemented and by the time the changes were made the training funds were exhausted. However, once the problems with the microfinance component and its management by the Unit were raised with the Ministry of Finance, appropriate action was taken resulting in marked improvements. Thereafter, the Unit focused not only on its role as a project implementation unit, but also on broader policy questions relating to policy dialogue with stakeholders on rural and microfinance issues, by setting up the microfinance forum. On the basis of its performance under the present project, the Unit was retained by IFAD for the implementation of its follow-up project—the Rural and Agricultural Financial Project.

6.28 However, the policy dialogue performance of the microfinance forum leaves much to be desired and as the IFAD project completion report states the forum's presence in the MoF is a limitation: "This Forum was driven by MoFEP but did not have a strong representative from the microfinance sector (e.g. an apex organization) as co-chair. This is a limitation because a strong counterpart is important for policy dialogue: the Government cannot be expected to engage in policy dialogue with itself."

6.29 Given Moderately Unsatisfactory Government performance and Moderately Satisfactory implementing agency performance, overall borrower performance is therefore rated **Moderately Unsatisfactory**, in accordance with the IEG/OPCS harmonization criteria.

Monitoring and Evaluation

6.30 M&E is rated as **Modest**.

6.31 **Design.** The M&E design had significant weaknesses. The M&E was poorly designed with no quantifiable targets for output and impact indicators to track results. Baseline data was not available until two years into the project supervision. It was only after the Mid Term Review, three years down the line, that indicators to track and measure the achievement of intermediate objectives and outputs were developed. Even then, indicators for the achievement of project development objective were not developed and the intermediate objectives indicators partially measured their achievement. Also, data collection responsibilities and collection methods were generally not clear.

6.32 **Implementation**. Lack of measureable indicators to track intermediate and final outcome impacted good project management, particularly for results., Remedial efforts by the supervision team initiated soon after project effectiveness were inhibited by initial confusion regarding who was responsible for collecting specific financial data. This hindered agreement on a revised M&E system which was adopted after the Mid Term Review in 2005. The revision refined and improved the design of the M&E system and collection of relevant data and indicators by the various Rural and Community Banks and non-Rural and Community Bank stakeholders in formats that could be used by the main project M&E unit in the Bank of Ghana. The new M&E system became fully operational only very late in the project

6.33 **Utilization.** The new M&E system was not available for use during the most part of the project for decision making. This is reflected in the project's limited data on actual project costs at closing and exhaustion of the training funds after only 3 percent of the original and 25 percent of the revised targets. However, the M&E system put in place by the Association of Rural Banks Apex Bank is now being used for oversight of the Rural and Community Banks as well as for designing action plans. These data are also used by the Bank of Ghana. GHAMFIN also collects data from all microfinance institutions.

7. Lessons

This PPAR draws six key lessons from its review of the project:

7.1 Specific project design features (in this case the linkage program) may work well in one context, but not in another. Innovations should be vetted through pilot and stakeholder consultations to ensure their suitability for the local context. A pilot for the formal/informal linkage program would have highlighted implementation challenges, which could then have been addressed before scaling up. Due to its implementation challenges the component had to be revised at mid-term review to narrow its focus to a smaller number of rural commercial banks and to support them in developing business plans to help them form linkages as well as to rationalize the type of trainings, group selection criteria etc. This was costly and inefficient.

7.2 Widening financial intermediation by reaching new markets or sectors requires appropriate strategies or innovative products that address these markets. The project was expected to increase outreach to agriculture and the lagging rural regions but the design did not include any strategies for doing so either through innovative products or any region specific approaches that addressed the risks of serving/ developing these markets for the financial institutions. Not surprisingly, the outreach to both agriculture and the lagging regions remained low.

7.3 The design of an effective training program requires clear identification of the content of the training to be imparted, the capacity of trainers, and who and how many will be trained. The monitoring and evaluation of the effectiveness of training is an important aspect of an effective training program, and unless carefully incorporated can waste resources.

7.4 Subsidies distort markets; however, when subsidies are political and entrenched they are hard to displace. It is insufficient for a project team alone to conduct dialogue on directed and subsidized credit. This should be a subject for Bank management involving ministerial level dialogue. Despite regular policy dialogue, the project team on its own was not successful in reducing subsidies even though directed credit and subsidies had a direct bearing on the project’s intermediate objective of financial widening and deepening.

7.5 The shortage of measurable indicators and an appropriate M&E system can reduce a project's ability to make timely corrections as well as to track its impact. The impact of the project could not be ascertained in the absence of an impact evaluation and an appropriate M&E System.

7.6 Project teams should be careful to avoid project development objectives that are too general to be effectively monitored. Such objectives are generally not monitored and compromise the evaluation of results. This has been the case for the Ghana Rural Financial Services project.

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Annex A. Basic Data Sheet

GHANA RURAL FINANCIAL SERVICES PROJECT (COFN-04430, IDA-33740, IDA-3374A)

Key Project Data (amounts in US$ million)

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	22.96	24.40	106.27
Loan amount	5.13	5.67	110.52
Co-financing	17.83	18.73	103.02
Cancellation	0.00	0.00	0.00

Cumulative Estimated and Actual Disbursements

	FY01	***FY02***	***FY03***	***FY04***	***FY05***	***FY06***	***FY07***	***FY08***
Appraisal estimate (US$M)	0.95	1.20	1.70	2.70	4.20	5.13	5.13	5.13
Actual (US$M)	0.00	0.25	0.71	1.65	2.95	4.78	5.41	5.67
Actual as % of appraisal	0.00	20.83	41.76	61.11	70.23	93.17	105.45	110.52
Date of final disbursement: 04/30/2008								

Project Dates

	Original	Actual
Initiating memorandum	10/21/1999	10/21/1999
Negotiations	02/09/2000	04/18/2000
Board approval	03/15/2000	06/08/2000
Signing		
Effectiveness	01/01/2001	12/04/2001
Closing date	12/31/2006	12/31/2007

Staff Inputs (staff weeks)

Stage of Project Cycle	**Staff Time and Cost (Bank Budget Only)**	
	No. of staff weeks	**USD Thousands (including travel and consultants costs)**
Lending		
FY00	18	54.09
FY01		0.00
FY02		0.00
FY03		0.00
FY04		0.00
FY05		0.00
FY06		0.00
FY07		0.00
FY08		0.00
Total:	**18**	**54.09**
Supervision/ICR		
FY00		0.00
FY01	20	23.62
FY02	16	32.16
FY03	22	41.07
FY04	18	88.15
FY05	20	45.05
FY06	35	85.08
FY07	31	66.86
FY08	16	40.18
Total:	**178**	**442.17**

Task Team Members

Names	*Titles*	*Unit*
Supervision/ICR		
Beatrix Allah-Mensah	Social Development Spec.	AFTCS
Rose Abena Ampadu	Program Assistant	AFCW1
Ferdinand Tsri Apronti	Procurement Specialist	AFTPC
Benedictus Kwame Atitsogbui	Information Analyst	AFCW1
Henry K Bagazonzya	Sr. Financial Sector Spec.	SASFP
Samuel Bruce-Smith	Consultant	AFTFM
Christopher Paul Jackson	Economist	AFTAR
Renate Kloeppinger-Todd	Rural Finance Adviser	ARD
Anthony Mensa-Bonsu	Consultant	AFTPC
Lydia Sam	Procurement Asst.	AFCW1
William F. Steel	Consultant	AFTEG
Huong-Giang Lucie Tran	Operations Officer	MNSSD
Frederick Yankey	Sr. Financial Management Spec.	AFTFM
Azeb Fissha	Consultant	AFTAR
Renée Chao-Beroff	Consultant, IFAD	IFAD
Mohamed Manssouri	Country Program Manger	IFAD

Annex B. Statistical Data

Table 1. Ghana; Structure of the Financial System, 2000-10

	Dec-00		Dec-05		Dec-09		Dec-10	
	Number	Percent of Total Assets	Number	Percent of Total Assets	Number	Percent of Total Assets	Number	Percent of Total Assets
Commerical Banks	16	76.9	20	70.5	26	75.1	26	75.1
Private	10	39.2	15	42.5	21	52.4	21	53.4
Domestic	5	4.0	6	8.0	8	12.7	8	15.1
Foreign	5	35.2	9	34.6	13	39.8	13	38.3
State-Owned 1/	6	37.7	5	28.0	5	22.6	5	21.7
Rural and Community Banks	113	2.0	121	4.3	134	3.3	135	2.7
Other Banking and Quesi Banking Institutions	33	3.9	34	4.7	46	5.0	47	4.6
Savings Loan companies	8	0.2	12	1.0	18	1.6	19	1.8
Mortage Finance Companies	1	1.4	0	0.0	1	0.3	1	0.3
Leasing and Finance Houses	21	1.2	20	2.3	27	3.0	28	2.5
Discount Houses	3	1.1	2	1.4	0	0.0	0	0.0
Nonbank Finanical Institutions	57	17.2	80	20.6	113	16.6	134	17.5
Insurance companies	22	-	26	2.8	42	3.9	42	3.6
Live Insurnace	2	-	5	-	17	1.3	17	1.3
Non-life Insurance	18	-	19	-	23	2.5	23	2.3
Reinsurance	2	0.0	2	-	2	0.0	2	0.0
Pension funds	-	12.5	-	17.8	-	12.7	-	12.4
SSNIT 2/	-	12.5	-	-	-	12.7	-	11.8
Other Public	-	-	-	-	-	0.0	-	-
Private	-	-	-	-	-	0.0	-	-
Securities Industry	35	-	54	-	71	0.0	92	1.5
Borker-dealers	14	-	18	-	22	-	21	0.3
Invetmsnet advisors	17	-	28	-	39	-	52	1.2
Custodians	-	-	3	-	4	-	12	-
Trustees	-	-	2	-	2	-	3	-
Total Finanical System	254	100.0	291	100.0	364	100.0	387	100.0

Annex B, Table 2: ARB APEX Bank Financial Performance Indicators 2002-2010 (millions of Cedis)

	2003	2005	2007	2008	2009	20010
Total deposits	9.7	28.3	36.3	45.7	61.5	99.5
of which 5% reserve	3.7	7.9	13.0	15.8	15.3	24.6
Other deposits (current acct pls time)	6.0	20.4	23.3	29.9	46.3	74.9
Interest Income	2.7	3.8	5.6	6.7	12.3	12.1
Fees & Commissions	0.1	0.7	1.7	2.0	2.6	2.7
Foreign Exchange Fees			0.0	0.3	0.3	0.3
Other Operating Income	0.7	0.9	0.8	1.0	1.7	1.4
Total Operating Income BH)	3.5	5.5	8.1	10.1	16.8	16.5
Interest expenses	0.3	0.9	0.7	1.1	2.3	2.2
Fees and Commissions, Expenses			0.1	0.1	0.2	0.3
Opertaing Expenses	1.4	3.8	6.1	7.7	9.0	12.2
Total expenses	1.7	4.7	6.9	9.0	11.5	14.7
Impairment	0.0	0.1	0.6	0.1	0.4	-0.1
Profit	1.8	0.7	0.6	1.0	4.8	1.9
Total Operating Income	3.5	5.5	8.1	10.1	16.8	16.5
Grants	0.7	0.9	0.7	0.6	0.5	0.8
Operating Income less Grants	2.8	4.5	7.4	9.5	16.3	15.7
Operational Expenses	1.4	3.8	6.1	7.7	9.0	12.2
Total Expenses	1.7	4.7	6.9	9.0	11.5	14.7
Interest income/Total income	76.2	70.1	69.0	66.9	73.1	73.6
Income/Operating Expense	254.1	143.8	132.2	130.9	187.3	135.4
Income /Total Expense	207.5	116.1	117.0	112.6	145.8	112.6
Total Income less grants/Total Expense	165.6	96.5	107.2	106.0	141.2	107.0
Shareholder funds	3.2	4.4	5.3	6.6	11.4	16.7
Assets	14.5	37	51.5	61.2	83.4	128.4
Return on Net Worth (percent)	57.8	15.6	11.7	15.5	42.3	11.3
Return on Assets (percent)	12.6	1.9	1.2	1.7	5.8	1.5
Share of interest in total income (percent)	76.2	70.1	69	66.9	73.1	73.6
Share of total costs in income (percent)	48.2	86.2	85.5	88.8	68.6	88.8
Staff costs (millions of cedis)	0.4	1.4	2.9	5.1	5.5	8
Staff costs/Total Operating Income (percent)	10	25.9	34	50.7	32.8	48.5

Annex C. List of Persons Met

ORGANIZATION	NAME	FUNCTION	PHONE	E-MAIL
Fidelity Bank	Edward Opare Donkor	Finance Director	+233-214490	eodonkor@myfidelitybank.com
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ORGANIZATION	NAME	FUNCTION	PHONE	E-MAIL
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