Linking matching grants with loans: Experiences and lessons learned from Ghana

IFAD
Investing in rural people

Food and Agriculture Organization of the United Nations

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Technical Notes provide practical suggestions and guidelines to country programme managers and project design teams to help them design and implement programmes and projects. They support IFAD's Rural Finance Policy and *Decision Tools for Rural Finance*, and should be read in conjunction with those documents. Other parties involved in the projects, such as the members of the project management units, staff from participating financial service providers and host government ministry employees also may find these notes useful.

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List of acronyms and abbreviations

ARB	Association of Rural Banks
BAC	business advisory centre
CBRDP	Community-Based Rural Development Project
FAO	Food and Agriculture Organization of the United Nations
GASIP	Ghana Agriculture Sector Investment Programme
GHS	Ghanaian cedi
M&E	monitoring and evaluation
MG	matching grant
MGF	matching grant fund
MIS	management information system
MSEs	micro and small enterprises
MTR	mid-term review
NRGP	Northern Rural Growth Programme
PCO	programme coordinating office
PFI	participating financial institution
PMU	project management unit
RCB	rural and community bank
REDF	Rural Enterprise Development Fund
REP	Rural Enterprises Programme/Project
RTF	rural technology facility
RTIMP	Root and Tuber Improvement and Marketing Programme
RTIP	Root and Tuber Improvement Programme
SMEs	small and medium-sized enterprises

Currency equivalents

CURRENCY EQUIVALENTS

Currency unit = Ghanaian cedi (GHS)
GHS 1.00 = 100 Ghanaian pesewas

The new Ghanaian cedi (GHS) was introduced on 1 July 2007, replacing the old Ghanaian cedi (GHC) at a rate of one new cedi equal to 10,000 old cedis.

AVERAGE EXCHANGE RATES

Date	31/12/2013	30/06/2013	31/12/2012	31/12/2011	31/12/2010	31/12/2009
US$1.00 ▸ GHS	2.3098	2.0250	1.9007	1.6397	1.4770	1.4325
GHS 1.00 ▸ US$	0.4262	0.4926	0.5262	0.6100	0.6772	0.6982

1. Introduction

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1. Introduction

Study background. Matching grants (MGs) are used increasingly by multilateral and bilateral institutions, including the International Fund for Agricultural Development (IFAD) and the World Bank, to cofinance productive assets and investments. Although confined initially to investments with clear public good characteristics, their use has spread. They finance a broad array of assets and productivity-enhancing technologies for groups, companies and individuals, benefiting the private sector directly with clear private goods characteristics. MGs are used as a short-term financing instrument to promote diffusion of technologies and enable target groups to carry out productivity-enhancing investments, compensating for the limited availability and high costs of term finance. At times, MGs incorporate a "crowding in" mechanism to attract financiers by sharing the risks and increasing the effective collateral value of the asset being financed. They are also used to support innovations that, by their nature, are more risky and less likely to attract loan finance. Despite their appeal as a relatively simple instrument to address access to finance constraints in the short run, there are several risks, which can limit their effectiveness and impact. When poorly designed and poorly implemented, MGs can distort and crowd out private and public investments. This effect can be exacerbated by elite capture and rent-seeking, leading to low impact use of scarce public funds for the benefit of a few. The extensive use of MGs for private investments can also conflict with efforts to introduce and expand sustainable financial services in rural areas.

The growing prominence of MGs as a financing tool in rural enterprise and value chain development contrasts with the dearth of empirical evidence on their effectiveness and efficiency in achieving their stated objectives. Their broader impact on the rural economy and the rural financial system is also unknown. Hence, in 2011, the Food and Agriculture Organization of the United Nations (FAO) and IFAD joined forces to undertake a desk review on the use of MGs in rural and agricultural development programmes funded by IFAD and the World Bank in different countries. Based on this first review, a Technical Note[1] was prepared for project designers to guide them when deciding whether MGs are a

[1] Frank Hollinger and Michael Marx. *Matching Grants*. Technical Note. (Rome: IFAD, 2012). http://www.ifad.org/ruralfinance/pub/match_grants.pdf.

suitable instrument in a specific context and to provide them with critical design elements, if so.[2] At the same time, the review of project documents confirmed that evidence for the implementation performance of MGs is limited; it does not allow for a proper understanding and analysis of their effectiveness, nor for the key conditions of their success or failure. In order to correct this deficiency, the two partners agreed to conduct in-depth assessments on the use of MGs by rural and agricultural development programmes in selected countries. This report should be seen as the first in a series of country case studies.

This study presents the results of an assessment on the use of MGs in combination with bank loans to finance productive investments by two IFAD co-funded programmes in Ghana: the second phase of the Rural Enterprises Programme (REP II) and the Root and Tuber Improvement and Marketing Programme (RTIMP). Ghana was chosen as a first case study for two reasons. First, the country has a history of the use of MG designs that explicitly link three funding sources: the donor MGs, the beneficiary's equity contribution, and the loans from banks (hereafter referred to as the tripartite or the MG-plus-loan approach). This approach differs from the conventional use of MGs, which only requires some beneficiary contributions, in cash or in kind, without any systematic link with the rural financial system. Second, the Ministry of Food and Agriculture and various development partners in Ghana recognized the importance of understanding how MGs have been used effectively in the agricultural sector.

The MG-plus-loan approach in Ghana has evolved over several projects funded by IFAD and the World Bank, addressing shortcomings encountered during implementation. The striking feature of this approach lies in the tripartite arrangements between the programme, banks and beneficiaries. MGs are supposed to: (i) enhance access to investment finance; (ii) facilitate a relationship between financial institutions and farmers/rural small and medium-sized enterprises (SMEs); and (iii) encourage financial institutions to become more acquainted with investment finance and expand their product offerings. As a result, it is hoped that beneficiaries will maintain their relationship with financial institutions and their access to finance so that the institutions will eventually provide (term) finance without MGs.

Study approach. The two programmes were selected in part because they had the largest number of MG recipients. A survey of 99 MG beneficiaries was conducted, of which 76 per cent were supported under REP II and 24 per cent under RTIMP.

[2] The Technical Note's objectives were to: (i) rationalize the use of MGs for private productive investments; (ii) improve their effectiveness and efficiency; and (iii) ensure that they do not undermine sustainable rural finance, but encourage financial institutions to lend to new target groups and for investment purposes.

This number represented about one quarter of the total 414 MGs provided between the two programmes at the end of December 2012 (REP II: 358; RTIMP: 56); that is, roughly 15 per cent of all REP II and about 46 per cent of all RTIMP MG recipients. In addition, 10 out of 25 participating financial institutions (PFIs) that had provided loans to grantees were surveyed (see Table 18 in Annex 3). Beneficiaries and PFIs were selected to represent the different regions where the programmes operate, as well as the main economic activities of beneficiaries. The survey was complemented by qualitative information on banks and beneficiaries and the use of project monitoring data, as available.

The study assesses the effectiveness and impact of MGs along four dimensions: technical, economic, financial and operational. In particular, it looks at the following aspects:

- appropriateness and reliability of the financed equipment;
- impact in terms of employment creation, turnover and profits;
- access to finance, especially loans; and
- appropriateness of the financing package (including MG, loan and beneficiary contribution) concerning investment and incremental working capital requirements.

The key aspects of the bank survey include:

- relative importance of MGs in overall lending of PFIs;
- performance of MG cofinancing loans in comparison with other loans;
- changes in lending practices and views of PFIs concerning the target groups receiving MGs; and
- willingness of banks to provide follow-up loans for similar purposes and target groups, with and without MGs.

Operational issues are also briefly discussed, where they affected effectiveness and impacts.

Methodology. The survey instruments were designed and field-tested by a four-person team comprised of Frank Hollinger and Michael Marx from FAO, and national consultants, Raymond Acolatse and Sebastian Deh. Survey design and pilot testing took place in May 2013, and implementation in the various regions was finalized by early August 2013. While the sample size is large enough to reveal key trends and outcomes, results are only statistically representative for the two programmes, not for the country. Results at the level of subsamples (e.g. by legal status of beneficiaries, economic subsectors, or track records in the financial sector)

are only indicative, and they would need to be validated by a larger survey. Moreover, the absence of data on control groups makes it difficult to attribute any observed changes to the MGs. As such, the survey results are rather exploratory. Despite these limitations, the results are useful for improving implementation of ongoing programmes and for informing the design and implementation arrangements of future programmes, such as the Ghana Agriculture Sector Investment Programme (GASIP).[3] Moreover, it is hoped that this study might inspire other development partners to conduct similar studies in order to broaden the knowledge and data on the effectiveness and impact of MGs under different project designs.[4]

Outline of the report. Chapter 2 provides a brief overview of MG schemes in Ghana, focusing on IFAD cofinanced projects and the tripartite (MG-plus-loan) approach. Chapter 3 presents the main results of the survey concerning the effectiveness and impact of MGs on beneficiaries along technical, economic, financial and operational dimensions. Chapter 4 analyses the results of the bank survey. Chapter 5 provides a summary of the observed impacts, strengths and weaknesses of the two MG schemes. The summary is followed by lessons learned, and practical and specific recommendations to the Government of Ghana, IFAD and other development partners on the use of MGs in Ghana, as well as to the designers, funders and implementers of MG schemes elsewhere. The annexes include a brief overview on REP II and RTIMP, a snapshot of the financial sector in Ghana, a more detailed description of the survey methodology, and a list of documents used for the report. Tables not immediately needed for the flow of arguments and interpretation have been taken out of the main report and are presented in Annex 4.

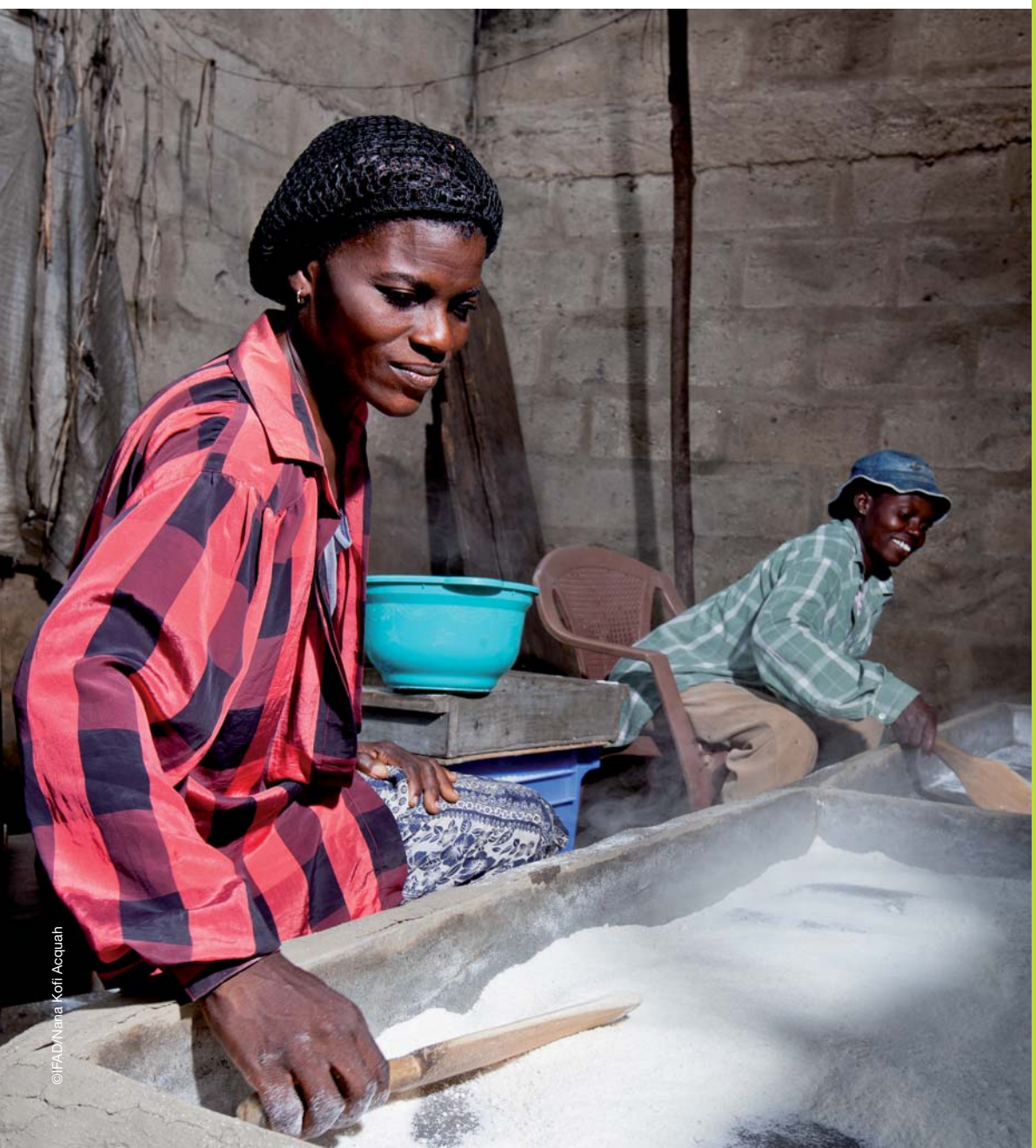
Acknowledgements. Frank Hollinger and Michael Marx from the FAO Investment Centre have written this report. The authors wish to thank Raymond Acolatse and Sebastian Deh for their inputs into the survey design and for diligently conducting most of the fieldwork. Their qualitative observations gathered during survey implementation were also helpful in interpreting the results. Further thanks also go to Chiara Sera for her assistance in cleaning the database and in initial data analysis.

[3] GASIP, a national programme of the Ministry of Food and Agriculture, is cofinanced by IFAD and other development partners to support the development of agricultural value chains that benefit rural smallholders and poor farmers.

[4] For more detail on the methods applied, see Annex 3.

The authors wish to express their gratitude and sincere appreciation to the following persons and institutions for supporting the study: Michael Hamp and Francesco Rispoli, Rural Finance Advisers at IFAD's Policy and Technical Advisory Division, and Ulaç Demirag, Country Programme Manager for Ghana, for jointly initiating the study and for providing intellectual guidance along with financial and operational support throughout implementation. We are grateful to Akwasi Adjei Adjekum, RTIMP Project Coordinator, and other RTIMP staff, especially Owusu Mensah-Aborampah, Business Development Officer, for their special efforts to provide complementary financing for the undertaking of this study. The RTIMP office, in particular Mr Adjekum and his collaborators, provided much of the logistics needed to contact grant recipients and banks and to conduct the field interviews. Many thanks also go to the project management unit (PMU) of REP II, especially Kwasi Attah Antwi, National Programme Director, and Cletus Kayenwee, Monitoring and Evaluation Officer, for their full collaboration in preparing and conducting the fieldwork, as well as the staff of the business advisory centre (BAC) and the rural technology facility (RTF) for their support in identifying and meeting beneficiaries. Finally, we wish to express our gratitude to the grant recipients and owners, managers and staff of the banks interviewed for their time, guidance and frank responses to our many questions. We gratefully acknowledge the comments and suggestions received from peer reviewers, especially Ed Heinemann, Michael Hamp, Francesco Rispoli, Jonathan Agwe and Kathy Zissimopoulos at IFAD; Ajai Nair at the World Bank; Rich Pelrine at Inspired International; and Astrid Agostini, Toshiaki Ono and Massimo Pera at FAO.

2. Matching grants linked to loans in Ghana



2. Matching grants linked to loans in Ghana

MGs in Ghana. MGs can be defined as one-off, non-reimbursable transfers to eligible beneficiaries for a defined purpose and on the condition that recipients make a specified contribution to the subproject. MGs differ from pure grants in that they require a matching contribution from beneficiaries; and they differ from subsidized loans or revolving funds by not being reimbursable. Grants and matching contributions can be either in cash or in kind, or a combination of both. The matching contribution from the grant recipient is aimed at increasing ownership and enhancing the prospects for the economic success of the investment while also allowing finite public resources to reach a larger number of beneficiaries. MGs may or may not be provided together with other financial services, such as loans, or linked to them. As one-off transfers, MGs also differ from permanent public transfers, such as subsidies for inputs and services (e.g. fertilizer or interest rate subsidies) or safety nets (e.g. cash transfers, food for work).[5]

As part of the study, the national consultants attempted a more comprehensive stocktaking of the use of MGs in donor-funded projects in agriculture and rural development in Ghana. Donor-funded projects in the agricultural sector from the Ministry of Food and Agriculture served as a starting point. However, obtaining relevant information on the financing arrangements of these projects proved far more challenging than expected, and the information received has been insufficient for conducting any meaningful comparative analysis. Nevertheless, the available evidence seems to confirm the results of the previous study on MGs in 14 projects in different countries, funded by IFAD and the World Bank. MGs are widely used in Ghana to stimulate uptake of new technologies and to promote investments in productive assets in different segments of agricultural value chains. Their beneficiaries range from smallholder farmer groups to medium-sized companies. As for their purposes and target groups, MGs also vary in their terms and conditions, such as selection and eligibility criteria, ceilings on grant and subproject sizes, and the types and levels of matching contributions from beneficiaries. In defining the latter, project designers face trade-offs: while higher matching contributions help to reduce opportunistic behaviour and identify

[5] Hollinger and Marx, *Matching Grants*, p. 8.

beneficiaries with a strong commitment and ability to manage the investment, they also increase the likelihood that the entrepreneurial poor will be excluded. Likewise, while low and in-kind contributions reduce entry barriers for the poor, they also increase the risk of elite capture and reduce the outreach of any given programme's budget. Beneficiary contributions are, in most cases, below 30 per cent of total investment costs, and in several cases grants finance 100 per cent of the investment costs. The sizes of the grants can also be significant, as, for example, in the case of the Commercial Agriculture Project cofinanced by the World Bank and the United States Agency for International Development.

Consistent with the findings of the international desk review on MGs, the desk review in Ghana suggests that the justifications for using grants to finance private investments are often not clearly spelled out. Moreover, designers do not analyse and document the type of market failure to be addressed sufficiently, nor do they determine whether an MG is the most suitable instrument, especially when compared with other, more sustainable design options.[6] Rather, the use of grants is considered a default option in design, resulting from the assumptions that financial institutions would not finance the target groups and/or engaging with them is too cumbersome. Though well-intentioned, the tight restrictions imposed by most donors on the use of subsidized and directed credit have contributed to project designers' preference for stand-alone MGs that bypass the financial system. Obviously, this preference for a supposedly flexible solution outside the financial sector that can be implemented rapidly comes with considerable challenges, along with the risk that effectiveness can be undermined. MG schemes frequently lack proper criteria, institutional frameworks and qualified staff to appraise not only the technical, but also the economic and financial viability of the proposed investments and applicants. Building such systems and capacities is time-consuming, but MGs are typically introduced as temporary, project-based solutions, driven by the need to meet output targets in project results frameworks. As a result, institutional structures are also temporary, and those deciding on beneficiary selection and project appraisal are rarely held accountable for the success and sustainability of the investments financed. Worse yet, decisions on MG approvals rest with donors and local authorities, with the very limited participation of private

[6] Such design options would be geared towards addressing the root causes of limited access to investment finance, which are typically related to the absence of risk management tools, high transaction costs, and capacity constraints of financiers and investors. While policies and investments addressing structural weaknesses related to infrastructure, institutional capacity development and other elements of an enabling environment require a medium- to long-term time horizon, intermediate options to be considered by designers include partial guarantee mechanisms, refinance facilities, insurance and technical assistance to financial service providers. It is unlikely that reliance on a single financial instrument will generate broader and lasting impact.

sector-based PFIs, while the use of MGs for political purposes and elite capture remain constant threats.

The tripartite or MG-plus-loan approach: rationale and conceptual foundation. The MG-plus-loan approach was developed to address some of the inherent problems of pure MGs while avoiding the introduction of subsidized credit. IFAD and the World Bank first introduced the approach on a pilot basis in 2003-2005 as an alternative to interest rate subsidies in the Village Infrastructure Project, and then in its successor, the Community-Based Rural Development Project (CBRDP). The main justification for using a subsidy element was the perceived need to address investment constraints due to high interest rates in Ghana that resulted in high financing costs, especially in the case of loans with longer duration needed for financing lumpy investments. Interest rates above 30 per cent per annum and spreads of over 20 per cent between deposit and lending rates were significantly higher than in other West African countries. These factors were attributed to a number of structural weaknesses in the Ghanaian economy, including: (i) inflation rates of 10 per cent and above; (ii) a limited degree of competition among banks, partially due to crowding out of private-sector lending through government borrowing at 30 per cent and above; (iii) inefficiencies and high operating costs in the banking sector; and (iv) high non-performing loan rates due to constraints in enforcing loan repayment. It was argued that these high financing costs squeeze out investors with insufficient equity rendering many potential investments unviable that would otherwise be profitable if the invested capital was valued at opportunity costs. A further problem was that banks had limited appetite to venture into rural lending for micro and small enterprises (MSEs) given the opportunity to invest in treasury bills at returns of 30 per cent and above, and at much lower risks.

The systematic linking of MGs with loans can attenuate these tensions and trade-offs in fixing grant and beneficiary contributions, and can help avoid investments being financed primarily by grants. The basic financial schemes used consisted of an MG of 30 per cent of the investment cost subject to an equity contribution of 10 per cent and combined with a bank loan for the remaining 60 per cent. The MG of 30 per cent of the investment cost was expected to reduce the debt burden and related financing costs for the borrower, while an equity contribution of only 10 per cent would be much more affordable for borrowers, allowing the productive poor to participate. At the same time, the combination of loan and equity contribution would keep the gearing ratio and bank exposure at a more prudent level of 60 per cent. Moreover, the disbursement of an MG was subject to

the willingness of a PFI to bear the full credit risk by providing a loan of 60 per cent from its own resources. Hence, while the MG would reduce the risk exposure of bank and borrower (as the productive asset/equipment being financed then served as the traditional collateral for the PFI), the 60 per cent exposure would still provide enough incentive for the PFI to conduct proper due diligence and loan appraisal.

While traditional MG schemes focus on investment promotion and beneficiary empowerment, the MG-plus-loan approach also has two additional objectives: (i) to enhance access of the entrepreneurial poor to sustainable financial services (primarily loans); and (ii) to incentivize financial institutions to offer medium-term loans to an underserved rural clientele. Hence, MGs are expected to serve as "matchmakers" between rural MSEs and banks by reducing the entry barriers for both sides. Reducing risk exposure for banks and clients, MGs could enhance access to investment finance in several ways: (i) by enabling clients to access larger amounts of funding than could be obtained through direct borrowing from banks, due to reduced financing costs and collateral constraints;[7] (ii) by extending the loan repayment period without rendering the investment financially unviable (since interest is only paid on 60 per cent of the investment costs); (iii) by providing investment finance to clients otherwise deemed too risky (e.g. due to collateral constraints or lack of track record); and (iv) by allowing banks to spread their loanable funds over a larger number of clients if the size of finance per borrower does not increase. MGs are expected to be attractive to PFIs because they allow them to offer larger financing packages or longer repayment periods to their existing clients, and to access new clients while receiving training and other services from the projects. It is hoped that if both parties deem the MGs and cofinancing loans successful, MSE's future access to loans for working capital and investment purposes would be facilitated. Likewise, MGs could also provide PFIs with learning experiences that would reduce perceived risks and would help build a track record in MSE lending.

The basic features of the MG-plus-loan approach have been used by various projects following the Village Infrastructure Project and CBRDP, including REP II, cofinanced by the Ministry of Trade and Industry, IFAD and the African Development Bank; the RTIMP cofinanced by IFAD and the Ministry of Food and Agriculture; the Northern Rural Growth Programme (NRGP); and the Ghana Energy Development and Access Project. It will also be used in the third phase of the Rural Enterprises Programme and GASIP, to be implemented during 2014.

[7] The MG reduces the loan amount to be covered by collateral, which can render lumpy investments financially viable in the case of collateral-constrained borrowers.

The approach has been modified slightly based on implementation experience. Initially, under the CBRDP, decisions about MGs and loans were split. Loan decisions were made first by the banks, while MG decisions were made by grant committees in the participating districts (composed of representatives from the project, financial institutions, business development service providers, as well as the district assembly and traditional authorities). However, this approach led to long delays and, sometimes, political interference when rural banks were subjected to undue pressure to extend loans to beneficiaries preselected by the district grant committee.

Variations of the approach in practice. MG percentages have also varied among the projects. The CBRDP set grant limits for individual MSEs at 20 per cent of the total subproject costs, up to a ceiling of US$1,000, and 30 per cent of total subproject costs for groups, with a ceiling of US$4,500. Moreover, larger grants (60 per cent) were used for specific purposes, such as for more advanced enterprises seeking to expand their facilities in order to become learning centres to train local youth. MGs of 50 per cent were granted to successful trainees who managed to provide 10 per cent equity and convince a bank to finance the remaining 40 per cent. The remaining projects with IFAD co-funding provided MGs of 30 per cent (REP II) and 40 per cent (RTIMP and NRGP), whereas the Ghana Energy Development and Access Project provides MGs of 50 per cent (up to a fixed ceiling depending on the system). In the latter case, the higher MG percentage was justified on equity grounds, given that hardware costs for electrical energy are otherwise fully borne by the government, and for environmental and health reasons (in order to reduce the use of kerosene lamps).

The RTIMP supports individuals, groups and companies engaged in the production, processing and marketing of root and tuber crops. The programme supports the introduction and dissemination of improved planting material and processing technologies, along with the strengthening of value chain coordination. A major focus has been on cassava and its processing into *gari*, starch and high-quality cassava flour. The bulk of the MGs under RTIMP have been used for upgrading *gari* processing facilities through improved equipment (e.g. through the introduction of stainless steel frying pans) and the expansion of processing capacity. REP II mainly supports rural MSEs outside the agricultural sector through business development services and technical training provided by BACs and RTFs at the district level. During its implementation period between 2003 and 2012, the project's emphasis gradually diversified from an initial focus on enterprise creation by the economically active poor towards supporting established MSEs with growth potential.

In both programmes, the matching grant fund (MGF) is administered by the Association of Rural Banks (ARB) Apex Bank, which also accredited the PFIs. In the case of REP II, eligible clients had to be trained and applications endorsed by the BACs. The RTIMP trained its beneficiaries on the MG scheme during workshops and dissemination events organized in collaboration with the district agricultural offices. Both programmes supported MG applicants in developing their business plans in order to facilitate the MG-plus-loan appraisal process, but the financing decisions were left to the PFIs. Once PFIs approved the loans, MG applications were sent to the ARB Apex Bank and the programme coordination units for approval and disbursement of funds. Both programmes also played an active role in assisting clients during programme implementation and in training them about the importance of meeting their loan obligations on time. Further details on the two programmes and their MG schemes and related procedures are documented in Annex 2.

Implementation issues. While the MG-plus-loan approach is conceptually appealing and relatively straightforward in design, implementation has to be proven far more challenging. All projects faced considerable delays in putting the mechanism in place. In the case of CBRDP, the MG scheme only became operational in 2007 and 2008, towards the end of the implementation period. In the case of NRGP, only two MGs have been disbursed so far. The RTIMP became effective in 2003, but MG disbursement only started in 2009, after the mid-term review (MTR). For REP II, MGs were introduced after the MTR in 2008, but disbursements started only in 2010 and ended in 2012, at the end of the second phase of the project. One major problem was convincing financial institutions to participate in the scheme given their negative experiences with other development projects. For example, REP II first used a credit line to entice rural and community banks (RCBs) to provide finance to the trainees of the BACs, many of whom had just started their businesses. In some cases, RCBs reported having been under pressure from local authorities to finance lists of beneficiaries prepared by the BACs. In other cases, RCBs were not fully aware that they had to bear the entire credit risk. In the case of RTIMP, the MG was increased to 40 per cent of the investment costs in order to entice PFI participation.

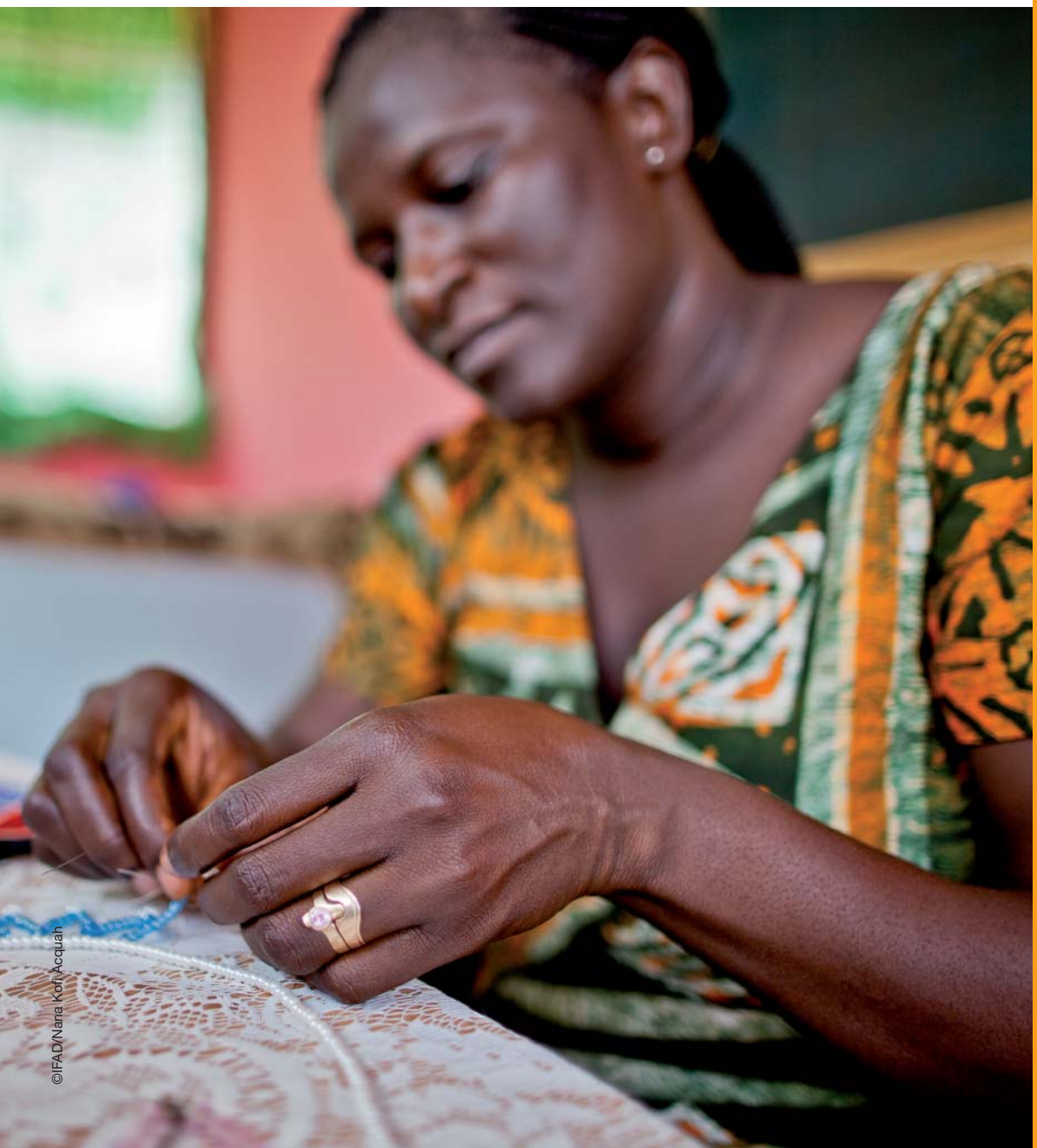
A second major problem has been getting programme implementers to fully understand the approach. While the MG-plus-loan approach has dual objectives, in practice, the MG schemes played only a minor role in project design (or were introduced during implementation, as with REP II). Hence, the size of the MGFs was modest, and the related performance targets and indicators played a minor role in the results frameworks. Access to finance was not a prime concern of RTIMP,

and it was de-emphasized in REP II after the MTR, following the poor performance of the project's credit facility. Given that IFAD has continuously supported rural finance[8] in Ghana, rather than diverting too many resources into sustainable access to finance, the rationale for de-emphasis included the aim to have programmes focus on targets in the "real economy", in terms of such things as training and technology development. However, the link between these rural finance programmes and the MG components of REP II and RTIMP did not seem to have materialized sufficiently at the operational level. The limited attention to the MG mechanism and access to finance in general is not only reflected in the late start and limited scope of MG operations, but also in the poor documentation of implementation performance and results in the monitoring and evaluation (M&E) system.

A third problem encountered was the limited availability of loanable funds of participating RCBs due to the relatively high minimum reserve requirements and the banks' limited ability to mobilize equity and fixed deposits and/or limited access to medium-term liabilities. For REP II, this constraint was addressed by providing PFIs with access to a medium-term refinance facility under the Rural Enterprise Development Fund (REDF) managed by ARB Apex Bank. Reportedly, PFI engagement in the matching grant scheme only gained momentum following the establishment of this facility in 2010.

[8] IFAD supported the Rural Financial Services Project and then the Rural and Agricultural Finance Programme.

3. Impact of matching grants on grant recipients



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3. Impact of matching grants on grant recipients

This chapter provides an overview of the implementation performance of investments cofinanced through MGs by both programmes, along with key features of MG recipients and investments. The overview is followed by an analysis of the effectiveness and impact of MGs on beneficiaries.

3.1 Overall outreach of matching grants at the project level

According to monitoring data, REP II started disbursing MGs in 2010 with a total of 61 MGs, followed by 87 MGs during 2011 and 315 MGs during 2012. Over the entire project period, REP II provided 463 MGs, of which 449 went to individual clients and 14 went to groups. Including group members, the total number of beneficiaries was 550, composed of 344 women (63 per cent) and 206 men (37 per cent). The total investment volume cofinanced through MGs amounted to GHS 314,143 during 2010, GHS 343,621 during 2011, and GHS 586,875 in 2012 – totaling GHS 1,236,949 over the entire period. The RTIMP disbursed 81 MGs worth GHS 433,604 between 2009 and 2013, which cofinanced a total investment volume of GHS 1,244,639.[9] Hence, the average size of the RTIMP matching grants (GHS 5,353) was much larger than that of REP II (GHS 679).

Overall, the MGF only accounted for a small portion of total project funding and only a very small minority of potential beneficiaries had access to the facility. This deficiency can be attributed to the relative complexity of the approach, which resulted in long delays in getting project staff and procedures ready for implementation, raising awareness among potential PFIs and beneficiaries, and achieving the necessary level of understanding on the approach among all key stakeholders, and, of course, setting up the medium-term refinancing facility to respond to the limited amount of loanable funds available to PFIs.

With regard to PFIs, ten RCBs and one commercial bank[10] actively participated in RTIMP, while fifteen RCBs participated in REP II. However, the participation of these banks has been very uneven, with the most active RCB[11] alone accounting for

[9] Data received from the RTIMP business development officer in November 2013.

[10] Ecobank joined in 2011. Efforts to recruit other commercial banks were not successful. By mid-2013, Ecobank financed only two projects and loan durations were less than one year.

[11] Kwamanman Rural Bank.

more than half of all subprojects, and the top three most active PFIs accounting for over 80 per cent of all subprojects funded by the RTIMP, by value. In the case of REP II, the top two RCBs financed almost half and the top five financed about 80 per cent of the aggregate value of all subprojects (see Table 24 and Table 28 in Annex 4).

Both programmes experienced difficulties in recruiting PFIs and keeping them engaged. While a total of 15 PFIs participated in REP II between 2010 and 2012, the participation in any single year oscillated between six and nine RCBs. Most PFIs (five out of six) that had started in 2010 continued through 2011, but then stopped in 2012. In 2012, six new RCBs joined the project, one[12] of which cofinanced almost a quarter of the entire project investments in a single year.[13]

This uneven participation of PFIs may reflect some trial and error. It also shows that only a limited number of RCBs have been able and willing to make reasonable use of the MG facility as part of their business operations. In the ten RCBs surveyed, the total value of loans complementing the MGs accounted for 0.7 per cent of the average loan portfolio at the year-end,[14] which means that these loans did not have any significant importance for the banks involved.[15] In any case, limited budget availability and the temporary disruption of activities during the transition between REP II and the current third phase of the project might have contributed to this limited continuity. For most bankers, credibility emerges as a result of long practices, making it difficult to establish given the relatively short lifespans of the projects. Because REP III, NRGP and GASIP are continuing to use MGs in line with the REP II approach, it is expected that some of the implementation problems experienced under REP II and RTIMP will be overcome.

3.2 Key features of the sampled matching grant recipients

The sample consists of 99 valid interviews, including 75 MG recipients from REP II and 24 MG recipients from RTIMP, representing 15 per cent and 46 per cent of all MG recipients of both programmes, respectively. Recipients were classified into three categories, according to their legal status: individuals, groups and companies.

[12] Okomfo Anokye Rural Bank.

[13] See Table 22 and Table 23 in Annex 4.

[14] Admittedly, this is methodologically incorrect, as flow data (disbursements) are related to stock data (outstanding loans at year-end). This problem has resulted from survey difficulties in terms of capturing all disbursements made during a specific period of time, and the difficulty of getting outstanding MG loans at the respective year-ends. However, the ratio presented above clearly captures their relative unimportance in the banks' portfolios.

[15] Moreover, the reason for non-continuation of three of the five most active PFIs during 2012 warrants further investigation.

The REP II sample consisted of individuals (70), with only 2 companies and 3 groups, consistent with the small overall number of groups that received MGs from this project. The RTIMP sample consisted of 13 groups, 9 companies and 2 individuals, which reflects their shares among all RTIMP beneficiaries.[16] In total, the sample consists of 72 individuals, 16 groups and 11 companies (Table 1). Taken together, all surveyed groups had 639 members resulting in a total number of 721 beneficiaries.

Table 1: Composition of survey sample by programme and legal status of MG recipients

Category	REP II	RTIMP	Total
Individuals	70	2	72
Groups/cooperatives	3	13	16
Companies	2	9	11
Total	**75**	**24**	**99**

Types of businesses supported. MG recipients were distributed across all sectors of the rural economy. About one third were engaged in manufacturing, followed by food processing (29 per cent), farming (23 per cent), and services (15 per cent). The most prominent subsectors were cassava processing under RTIMP, and dressmaking, bee-keeping and hairdressing under REP II (see Table 25 in Annex 4). Except for one case (farming inputs), MGs financed equipment needed for the expansion or upgrading of existing businesses. In some cases, business diversification was financed, such as cassava farmers diversifying into *gari* processing or teachers investing in farming or agroprocessing.

Investment size. Notable differences existed regarding the size of the investment between programmes and beneficiary types. While the average investment size for both programmes was GHS 7,568, the median value was only GHS 2,000, which points to an unequal size distribution. The average loan sizes were GHS 1,504 for individual beneficiaries, GHS 9,751 for groups and GHS 14,487 for enterprises. Equity contributions were GHS 477, GHS 2,168 and GHS 2,507, respectively. Large differences existed between the two programmes.[17] Over 73 per cent of all REP II projects have a total cost below GHS 3,000 and only 8 per cent are above GHS 10,000.

[16] At the time of writing, detailed information about the legal status, investment size, MG and loan amounts, etc., was only available for 55 of the 81 RTIMP MG recipients.

[17] See Table 26 in Annex 4.

Only 27 per cent of all RTIMP cofinanced investments were below GHS 10,000, whereas 59 per cent were in the range between GHS 20,000 and 40,000.

In the case of RTIMP, enterprises carried out the largest investments on average (GHS 24,517), followed by groups (GHS 19,452) and then individuals (GHS 8,000). REP II individuals and enterprises made investments of approximately GHS 2,500, whereas those made by groups were about three times larger, as shown in Table 2.

Table 2: Investment size by legal status of beneficiaries

Legal status	Average investment size (GHS)	
	RTIMP	REP II
Individuals	8 000	2 568
Groups	19 454	7 300
Enterprises	24 517	2 500
Total	21 212	2 475

Experience in the business. The level of experience in the business for which the MG was received varied broadly among beneficiaries within both programmes. While the average experience was 9.5 years, the median was only 5 years for both programmes, implying that while there are some very experienced beneficiaries in the sample, half have less than 5 years of experience. Moreover, 11 per cent of REP II MG recipients and 25 per cent of RTIMP can be classified as start-ups having less than one year of experience. Groups were asked about the year of establishment of their business, and responses ranged from 1985 to 2011, with an average of 2004 and a median of 2007. Hence, both programmes targeted well-established groups with a track record in collective or group-based activities for the MGs. At the time of the interviews, the average time that elapsed between the receipt of the MG and the time of the interview was 2.1 years for both programmes (REP II: 1.8 years; RTIMP: 2.8 years).

Sources of loan finance. MG beneficiaries received their loans from 22 PFIs, including 21 RCBs and 1 commercial bank, as shown in Table 23 and Table 24 in Annex 4. Most PFIs financed a few MG beneficiaries only, and only three banks participated under both projects.[18] Further information on the beneficiaries is provided in Annex 4.

[18] The most active PFIs in both programmes, East Mamprusi, Okomfo Anokye, Kwamanman and Upper Amenfi rural banks, are also strongly represented as sources of finance for the sampled MG recipients.

3.3 Impacts at the beneficiary level

The impact and effectiveness of MGs at the beneficiary level were measured along various dimensions: technical, economic, financial and operational. Questions were asked in two ways: either directly, in terms of specific performance aspects, or more generally, in terms of beneficiaries' views and satisfaction levels regarding the various outcome dimensions of the projects. The key results concerning the perception of outcomes and satisfaction levels are summarized in Table 3.[19] They are further discussed in the respective sections on the key impact and effectiveness dimensions. While the average ratings for most individual parameters are quite high, the range of ratings and the median values differ. Moreover, comparing individual ratings with the average rating over all parameters for the respective projects gives an indication of the stronger and weaker aspects of the projects, in relative terms, as viewed by beneficiaries. (For more details on the methodology, see Annex 3.)

Table 3: Perceptions of grant recipients regarding key outcomes

Scoring of dimension on scale from 1 to 10	REP II		RTIMP		All recipients	
	Mean	Range	Mean	Range	Mean	Range
Extent of satisfaction with the terms and conditions of the MG	8.9	4-10	9.0	5-10	8.9	4-10
Extent of satisfaction with the other support services received from the project	9.2	5-10	7.9	4-10	8.9	4-10
Extent of improved access to business advisory services through the MG	8.9	4-10	8.1	5-10	8.7	4-10
Extent of satisfaction with the quality of the equipment received/purchased	8.9	4-10	7.9	3-10	8.6	3-10
Extent of improved access to technology through the MG	8.8	2-10	8.0	6-10	8.6	2-10
Extent of confidence in the bank from where the loan was received	8.3	1-10	8.0	3-10	8.2	1-10
Extent of satisfaction with the financial results achieved through the MG project	8.2	4-10	7.4	3-10	8.0	3-10
Extent of satisfaction with the terms and conditions of the loan received	6.6	1-10	6.7	1-10	6.7	1-10
All values (N = 715)	**8.5**		**7.9**		**8.3**	

[19] In general, the extent of satisfaction of grant recipients with key outcomes was measured on a scale from 1 to 10, where 1 represented the lowest extent of satisfaction and 10 the highest.

A. Technical dimension

Technical breakdowns. Overall, the technical quality of the investments cofinanced by the MGs was reasonably high. In both projects, 80 per cent of MG recipients stated that they did not experience technical problems related to the investments. The remaining 20 per cent faced problems of different types, lengths and intensities, which ranged from improper construction of facilities or equipment installation to temporary breakdown of the equipment. The length of the interruption of business operations caused by technical problems ranged from a few weeks to one year. Two thirds of the problems could be resolved within three months. The remaining third (five cases) took much longer: between four months and one year. These cases included major breakdowns that could not be fixed locally and disagreements about warranty and liability for the damage between the equipment provider and the beneficiary. On the positive side, over 80 per cent of beneficiaries saved money in order to fix or replace broken equipment.

Access to spare parts and repair services. Difficulty in accessing spare parts and repair services were general constraints, often responsible for longer downtimes. Overall, 58 per cent of all interviewees stated that they did not have sufficient access to spare parts and repair services. However, this overall figure masks important differences between both projects: while over two thirds of RTIMP beneficiaries considered access to spare parts and repairs sufficient, the opposite occurred for REP II, where two thirds of the beneficiaries regarded access as insufficient.

Beneficiary satisfaction with equipment. The overall level of satisfaction with the quality of the equipment received was high. On a scale between 1 and 10, the average score was 8.6 and the median, 9. Moreover, 44 per cent (37 out of 85 valid responses) gave the highest possible rating (10), including three responses from RTIMP. Another 44 per cent (37 clients) were less satisfied, with ratings below the median (between 3 and 8), but only in a few cases (5) was the rating below 6. Equipment breakdown seems to have been a major reason of discontent, with 30 per cent of the less satisfied experiencing breakdowns (REP II: 7; RTIMP: 4) of an average duration of 2.4 months. Difficulty in accessing spare parts was a further problem cited frequently. Moreover, five clients needed additional capital to fix equipment or complete the installation; seven required additional working capital during the first year to run the equipment properly; and another seven had to replace the equipment (including six clients from REP II). Hence, quality and accessibility of equipment, spare parts, and related services for installation and repair have remained constraints that need continuous attention and improvement.

B. Economic dimension

Impact on business performance. The survey team first tried to measure the economic impact of the MG-plus-loan programme by calculating changes in turnover and profits based on data collection, but this approach turned out to be unfeasible. Given the low levels of record-keeping, reconstructing the prices, costs and quantities prior to and after the investment proved very challenging and time consuming, and the accuracy of the revealed data remained questionable. In view of the breadth of the overall assessment and in order to keep the interview time within reasonable limits, beneficiaries were asked directly how their sales and profits changed after the investment. In order to get meaningful data, the team decided to conduct in-depth studies with a small sample size and to focus on the changes in costs, revenues and profits as a result of the investments.

The 88 valid responses received indicate a very positive economic impact of the MG-cofinanced investments.

Impact on sales. Of those surveyed, 55 per cent saw their sales double and 31 per cent saw them triple or more than triple, which indicates a positive outcome for 86 per cent of the grantees. Only 2 per cent reported having much lower turnover, and 13 per cent had sales levels similar to those prior to the investment. The two cases of failed investments concerned a bee-keeper, whose beehives were attacked by rodents, and a mushroom producer who was convinced by project staff to create a small training centre to train apprentices on mushroom production – an offer that did not meet the demand of potential apprentices.

Impact on profits. Out of the total 88 valid responses, 50 per cent reported having twice their typical profit and 32 per cent had three or more times their typical profit,[20] indicating positive effects for 82 per cent of all grant recipients. On the other hand, 2 per cent had much less profit, 1 per cent had less profit, and 15 per cent had about the same levels of profit.[21] The resulting picture is somewhat divided: while four out of five reported substantial increases in profits, approximately one out of five did not see much change or were worse off.

[20] For 76 out of the 88 valid responses, the qualitative responses for the question on sales were the same as for the question on profits. Of the remaining 12 cases, 7 saw a deterioration of the results and 5 saw an improvement.

[21] A similar result emerged from a survey in Burkina Faso. Out of 1,096 valid answers, 15.3 per cent had experienced an increase in revenue after the grant, in the range of 50-100 per cent, and another 61.3 per cent experienced increases above 100 per cent. Thus, more than three quarters of smallholder farmers experienced profits at least twice that of the prevailing interest rates. See *Burkina Faso. Subsidizing small-scale agriculture and rural small entrepreneurs. Studying the constituents of a "smart" subsidy to make finance accessible to the rural poor*. Draft report. December 2013. (Rome: IFAD, 2013), p. 21.

This outcome is also reflected in the satisfaction levels. When recipients were asked about their level of satisfaction with the financial results of the MG, the overall rating was somewhat lower than the average rating of all outcome dimensions: 8.0 versus 8.3. The scores attributed to REP II clients were higher (8.2) than those of RTIMP clients (7.4). It should be noted that this aspect was given the second-lowest rating of all points surveyed, and that the scores were substantially below the mean values, as shown in Table 3.[22] On the one hand, 48 per cent of all beneficiaries[23] gave this aspect the highest or second-highest score. Among the highly satisfied, REP II clients were over-represented, with 45 per cent of all REP II clients falling into this category, versus 33 per cent of all RTIMP clients. On the other hand, 13 of the 37 clients with ratings below 8 gave scores between 3 and 5, and 20 gave scores between 6 and 7. However, these cases were neither associated with higher levels of loan defaults,[24] nor with profitability realized.[25] So this lower rating might, in part, reflect very high expectations concerning increased profit levels, which is common among entrepreneurs, but much less so among banks.

Creation of reserve funds. A total of 81 per cent of respondents stated that they practised some form of savings, whereas the remaining 19 per cent stated that they did not save. Of those with dedicated savings arrangements, 75 per cent kept these funds in a savings account with a bank, most commonly in RCBs.[26] Those without savings indicated that they: used earnings or cash flow (five) when needed; made special efforts (e.g. sanitation and hygiene, or preventive maintenance) to avoid breakdowns (three); had arranged for special support from the supplier (two); were able to get special ad hoc member contributions for the purpose (two); or were able to access a bank loan in case of need (one). This is a positive result, as all equipment requires funds for operation and maintenance, and, ultimately, replacement. Therefore, the creation of a reserve fund is an important indicator of the success of businesses. This result can also be interpreted as an indication of how effectively the project staff emphasized the need for reserve funds.

22 Moreover, the spread of the results was relatively large, from 3 to 10, with a standard deviation slightly above the average of all rated parameters (2 versus 1.8).

23 Thirty out of 88 valid responses; 34 per cent gave the highest score (10) and another 14 per cent gave the second-highest ranking (9).

24 The majority of those providing ratings of 6 and 7 were always able to pay their loans on time (72 per cent), and this ratio dropped slightly to 61 per cent for those with ratings between 3 and 5, but only slightly below the overall rate for all beneficiaries of 65 per cent.

25 Of those not satisfied, 74 per cent stated that their profits had doubled, and 26 per cent said that they had tripled, which is not much less than the average values for the overall sample.

26 In the remaining cases, respondents either kept these reserves without disclosing where they were, though they were seldom in a credit union, or in a *susu* savings group.

Impact of grants on employment creation. There are positive results in terms of job creation in supported enterprises. At the time of the survey, the sampled 99 MG recipients had generated 83 full time equivalent jobs (REP II: 46.5; RTIMP: 36.5). This number included 45 full-time jobs, 52 part-time or seasonal jobs, and 12 jobs for family members. Overall, employment increased by 24 per cent, with RTIMP clients benefiting more than REP II clients (31 per cent against 20 per cent, respectively), as shown in Table 4.

Table 4: Job creation by type of employment

Project	Full-time jobs	Part-time and seasonal jobs	Jobs for family members	Total full-time job equivalents*
REP II	16	37	12	40.5
RTIMP	29	15	0	36.5
Total	**45**	**52**	**12**	**77**

* Part-time/seasonal staff counted as 0.5 full-time equivalent.

Efficiency of job creation. Using the grant amount as a yardstick to measure the efficiency of job creation,[27] on average, an amount of GHS 2,892 was needed to create one additional full-time job. REP II had a higher efficiency than RTIMP in terms of cost per job created (REP II: GHS 1,597; RTIMP: GHS 4,329) (Table 5). For a proper interpretation, these costs would have to be compared with those of alternative investments in rural and agricultural development. Moreover, SMEs supported by RTIMP are likely to have greater indirect benefits. For example, farmers may see higher demand and better prices for cassava, and consumers may see higher-quality *gari* from stainless steel frying pans.

Table 5: Efficiency of job creation

Project	Number of staff before MG	Number of staff after MG	Number of jobs created*	Change	Value of MGs disbursed (in GHS)	Cost per job created (in GHS)
RTIMP	110.5	147	36.5	33.0%	157 995	4 329
REP II	224	264.5	40.5	18.1%	64 671	1 597
Total	**334.5**	**411.5**	**77**	**23.0%**	**222 666**	**2 892**

* Full-time job equivalent.

[27] Thus, the total investment costs and the overhead costs to generate the investment (i.e. the total project costs directly and indirectly associated with the respective grant) are disregarded. As it would have to be assumed that the quality and intensity of support to MSEs influences the outcomes, it would be desirable to undertake an assessment of the efficiency of project interventions in terms of the outputs achieved. However, such assessment was outside the mandate of this study.

C. Access to finance dimension

Access to formal financial institutions. Overall, the use of banking services was high. At the time of the survey, almost all respondents (98 per cent) used bank accounts and had access to at least one type of financial service. Of these, 60 per cent had only a savings account, 9 per cent had only a current account, and 30 per cent had both. In addition, 19 per cent operated a *susu* account[28] with their RCB, 16 per cent participated in informal daily or weekly deposit collection (mostly at markets), 11 per cent were members of a rotating savings and credit association, and 5 per cent were members of a credit union. It is unknown how many beneficiaries opened bank accounts in order to access the MG.[29]

Repeat loans. MGs did improve access to loans. While 43 per cent of MG recipients already had access to loans, a majority (57 per cent) accessed a loan for the first time. Moreover, 20 per cent of recipients received a follow-up loan. This figure needs to be interpreted in view of the fact that only 26 per cent of the beneficiaries (from REP II) received their loan in 2012, and 20 per cent received them less than one year before the interview.[30] It is, therefore, likely that more recipients will request and receive follow-up loans, especially in the case of REP II, once all MG cofinancing loans have been repaid. In the case of RTIMP, 10 out of 24 beneficiaries had taken loans before; however, only 3 received follow-up loans, even though almost two thirds[31] claim to have repaid their MG loans. The lower share of follow-up lending to RTIMP clients warrants further investigation.

A deeper analysis that traced individual borrowers revealed the following: of the 43 beneficiaries (REP II: 33; RTIMP: 10) that had received one loan before the MG, 13 received a follow-up loan (REP II: 10; RTIMP: 3). In turn, of the 21 beneficiaries of both projects that received follow-up loans after the MG, 12 (57 per cent) had been borrowers before whereas 9 had borrowed for the first time. In other words, 43 per cent of the clients receiving follow-up loans were first-time borrowers at the time of the MG.

An analysis of the source of financing shows that the majority of follow-up borrowers kept borrowing from the same sources. Over 80 per cent of MG clients borrowed from formal financial institutions such as RCBs.

[28] A *susu* account represents an emulation of the practice of daily deposit collection on the markets, which comprises a savings and a loan element.

[29] This question was not asked.

[30] Another 13 interviewees did not provide information about the disbursement date of the loan and some of these loans might still be within maturity.

[31] Seventeen out of 22 valid answers.

Loan size progression. The analysis of borrowings of the 99 grant beneficiaries before and after shows that loan amounts have gradually increased over time. In addition, borrowers have increased their experience, grown their capacity and created a track record with a financial institution. Table 6 shows that the average loan amounts increased for the entire sample from GHS 3,509 before to GHS 7,183 after the MG. Average loan sizes for REP II increased between the last two loans before the MG by a factor of 1.43, but the loan cofinancing the MGs was somewhat smaller: only 85 per cent of the size of the previous loan. This result might indicate some substitution of loan funds through the MGs, which raises the question as to whether MGs were needed for these clients.[32] However, the follow-up loans after the MG were then significantly larger (on average by a factor of 2.78), which seems to indicate that MGs accelerated the loan size progression. For the RTIMP, the loan size progression has been constant, with average loan sizes increasing from GHS 6,450 and 8,870 before the MG to GHS 12,517 during the MG and GHS 24,833 after the MG.

Table 6: Borrowings of MG recipients before and after the MG

	Second last time before MG	Last time before MG	**MG loan**	First time after MG	Second time after MG
Number of cases (N = 99)	17	43	**99**	23	2
Average amount in GHS	2 500	3 509	**4 185**	6 368	2 000
– of which REP II grantees	1 285	1 834	**1 556**	3 453	
– of which RTIMP grantees	6 450	8 870	**12 518**	24 833	
Average amount received from formal financial sources	2 720	4 094	**4 185**	8 616	2 000
Average loan duration in years	0.71	0.76	**1.23**	0.98	1.00
Proportion borrowing from formal financial sources	88%	77%	**100%**	83%	100%

A more disaggregated analysis that traces individual borrowers confirms this overall trend.

- In the case of the 13 REP II beneficiaries who had borrowed twice before the MG, average loan amounts first increased from GHS 1,285 to GHS 2,491,

[32] Given the funding constraints of most RCBs, it is likely that the smaller loan amounts led to an increased number of loans.

but the average amount of the loan cofinancing the MG was smaller (GHS 1,692). The MG and equity contribution increased the total amount invested to GHS 3,040. Of these clients, only four have received loans after the MG, and in each case these loans were substantially larger.

- For the 33 REP II clients who had borrowed once prior to the MG, the MG cofinancing loan had virtually the same size (around GHS 1,960). However, this result seems to be driven by a few outliers, since 21 of the 33 clients received smaller loans than before.
- Of the 18 REP II clients receiving follow-up loans after the MG, loan amounts were substantially higher compared to the loans cofinancing the MGs (GHS 3,644 against GHS 2,673), confirming the progression towards larger loans after the MG.

The above figures suggest some additionality of MGs in terms of increased loan access for first-time borrowers and accelerated loan size progression. However, the net effect is not entirely clear, in view of the natural trends of banks to reach out to new clients, the availability of a dedicated refinancing facility and increased loan sizes for repeat customers. A deeper analysis with larger sample sizes and control groups showing the "without MG" trends in market expansion, "without refinance facility" and loan size progression in the same market segments would be needed to quantify the additionality more precisely.[33]

Loan maturities. Most loans had a repayment period of one year. Of 80 valid answers, only nine (11 per cent) had a duration up to 2 years, and six (8 per cent) had a duration of 3 to 4 years. Most loans beyond one year were provided to RTIMP clients, given their larger average size. In the case of REP II, only five loans had maturities between 1.5 and 3 years (see Table 7). Hence, especially in the case of REP II, the MG did not lead to increased access to medium-term loans, and loan maturities increased only marginally by a few months from the last loan before the next loan after the MG. The average loan duration before the MG was between 7 months and 8.8 months. Tracing those REP II clients who had received two loans prior to the MG reveals that average loan durations were 6.8 months and 8.8 months, but increased to 12 months for the MG cofinancing loan.

[33] It should be noted that not every MSE necessarily needs a new loan after receiving the MG-plus-loan. There may be many reasons why an additional loan is not needed: the entrepreneurs may be able to make sufficient profit and use this to finance operating costs; they may maintain adequate reserves for replacing obsolete equipment; or they may not want to expand their business further.

Since the PFIs in REP II had access to medium-term refinancing through the REDF, the lack of term resources may not have been the prime constraint. Rather, many RCBs have weaknesses in cash flow-based loan appraisal and loan structuring, and they are reluctant to provide repayment schedules beyond one year, especially for smaller amounts. The follow-up loans after the MG were, again, of a shorter duration (one year on average), given that most borrowers (one) were former REP II clients, and in 65 per cent of cases (two) post-MG loans were for working capital purposes, not for investments.

Table 7: Average duration of loans before and after MG loan by programme (in years)

Project	Second last time before MG	Last time before MG	First time after MG	Second time after MG
REP II	0.74	0.62	0.96	1.00
RTIMP	0.64	1.15	1.16	
Total	0.71	0.76	0.98	1.00

Beneficiary perception concerning access to loans. The positive impact of MGs on improving loan access was also confirmed by beneficiaries.

- almost all grant recipients/borrowers[34] were of the opinion that their access to finance had improved with the MG; and
- of the MG recipients, 92 per cent had plans to apply for a new loan, and of these, 99 per cent wanted to go back to the same bank that had disbursed the MG loan.

On the other hand, participants gave the lowest scores on satisfaction with the terms and conditions of the loan received from their PFI, with an average score over both projects of 6.7.[35] There is a high probability that this dissatisfaction was one of the major reasons why 38 per cent of the respondents had stated that with their present experience and knowledge, they would not have undertaken the investment without the MG, given their assumption that the bank would not have provided them with sufficient loans.

[34] A total of 83 out of 86 = 97 per cent of respondents.

[35] While REP II and RTIMP grantees showed differences in all other assessments, as indicated in Table 5, their respective scores on this point were almost identical (6.6 and 6.7, respectively).

Confidence in banks. The question of increased confidence in the bank that provided the MG cofinancing loan revealed a mixed result. The average rating was eight, and the median was even higher (nine), showing that beneficiaries were somewhat divided in their perceptions. On the one hand, 40 per cent (35 of 87 valid answers) gave the highest ranking (ten).[36] All of these beneficiaries stated that their access to financing improved and that they planned to apply for another loan from the same bank.[37] On the other hand, one third of beneficiaries (26) rated their confidence in the bank below eight, including 4 per cent (three) giving very low rankings of between one and three. However, even out of these three, two claimed to have repaid their loan on time and were wanting to apply for further loans, even though only one reported that they would use the same bank. Hence, the very low ranking was not due to repayment problems, but rather to discontent with products and services, and the terms and conditions. More generally, all 26 beneficiaries providing below-average ratings stated that their access to finance had improved, and 24 of them wanted to apply for another loan, but only 19 would do so from the same bank. In this regard, it is interesting to note that half of the beneficiaries with low confidence in their bank (13 out of 26) had taken loans before the MG: in 11 cases from banks and in 2 cases from informal sources. However, only four beneficiaries took the MG cofinancing loan from the same financial institution from which they had borrowed before. Moreover, while 9 of the 26 beneficiaries had taken follow-up loans, only 1 of them took it from the same source.

Of the beneficiaries with the highest confidence levels, the five who received follow-up loans took them from the same bank financing the MG. Moreover, those who previously borrowed from a PFI took the MG cofinancing loan from the same PFI. Some had borrowed from informal sources (suppliers, relatives), some from commercial banks (African Development Bank, Barclays) or microfinance institutions (Radiant Microfinance), and some switched to PFIs in order to get the MG.

Three conclusions emerge:

- MGs offer an opportunity for PFIs to attract customers from other banks or from informal sources;
- good clients are demanding and change banks if they are not satisfied with products and services, and terms and conditions; and
- PFIs providing good services to their clients can build customer loyalty, even in a competitive market and without continuing access to MGs.

[36] These included nine beneficiaries from REP and six from RTIMP.

[37] Of these, 40 per cent (14) had previous access to loans, while 60 per cent (21) were first-time borrowers. In addition, 14 per cent (5) had already received follow-up loans.

Adequacy of the financing package. In order to better understand the reasons for the aforementioned discontent with the loans received, the adequacy of the loans with regard to the financing requirements of the investment was analysed. Overall, meeting the 10 per cent equity requirement did not pose major problems to beneficiaries. Only 7 per cent mentioned the need to borrow for this purpose, mainly among RTIMP beneficiaries. However, 43 beneficiaries (including 27 from REP II) considered the loan amount insufficient to meet working and investment capital requirements. Of these, ten were not always able to make all their payments on time and nine had not yet repaid their loans.

Recipients were asked about their need to raise additional funds, over and above the 10 per cent equity contribution, during the first 12 months after the MG was received in order to meet additional expenses related to the investment. Twenty-three MG beneficiaries[38] reported the need to raise additional funds related to the investment (e.g. to complement or replace equipment, complete construction work, or for installation of equipment and facilities), with an average amount of GHS 916. Out of the 23 beneficiaries, 13 also faced additional working capital requirements. In these cases, the financial package was grossly inadequate.

Sixty per cent of all beneficiaries[39] believed that working capital needs were not sufficiently considered during the loan appraisal. Moreover, 43 respondents experienced working capital shortages after the investment, including 29 from REP II (Table 8). Working capital requirements were not adequately discussed during the loan appraisal according to 44 per cent (19) of respondents, while 42 per cent (18) said that working capital shortages negatively affected their business, and 12 per cent (5) did not always manage to pay their loans on time.

Table 8: Shortfall of working capital experienced

By REP II grantees	Number	In % of total	By RTIMP grantees	Number	In % of total
Yes	29	41	Yes	14	64
No	41	59	No	8	36
Total	**70**	**100**	**Total**	**22**	**100**

[38] Of the 23 beneficiaries, 16 were from REP II.

[39] Sixty per cent represents 53 out of 88 valid answers, 40 of which were from REP II.

Even so, the majority of beneficiaries experiencing working capital shortages (41 per cent) eventually managed to raise additional working capital (average amount GHS 1,331) through savings, through other businesses, or through informal borrowing, as shown in Table 9.

Table 9: Ability to mobilize additional funds when encountering working capital shortage

By REP II grantees	Number	In % of total	By RTIMP grantees	Number	In % of total
Yes	31	53	Yes	13	81
No	27	47	No	3	19
Total	**58**	**100**	**Total**	**16**	**100**

Seven RTIMP beneficiaries (approximately 30 per cent) stated that they incurred additional expenses in order to complete the investments in equipment and construction to render them functional. Five of these considered the loan amount insufficient to cover investment and incremental working capital needs. Nevertheless, all seven were able to repay their loans on time by mobilizing the additional funding needs either from personal savings (27 per cent), income from other businesses (21 per cent), or through loans from family members.

Repayment performance. All PFIs involved in lending to MG recipients expect their clients to repay their loans promptly and fully, and they regularly make it clear that defaulters will not receive new loans. Access to finance will therefore only remain open for those grantees who were able to meet these expectations. In total, 27 beneficiaries were not always able to make their payments on time. Two thirds of the MG recipients[40] stated they had always been able make their loan payments on time. Only five clients answered the question about the number of installments missed.[41] However, several clients mentioned only short delays in payment (up to 15 days) due to weather conditions or late payments from customers, for example. The most frequently cited causes of default were lower turnover/sales, mostly in relation to production problems (21 per cent); family and health problems (21 per cent); equipment breakdown (11 per cent);

[40] Two thirds represents 52 out of 79 responses or 65 per cent.

[41] The total was 31 monthly installments, or 6.2 months of default on average.

and wrong assumptions in the business plan (11 per cent). According to the opinion of borrowers, about one quarter of the causes cited for problems with repayment were associated with inadequate terms and conditions or loan packaging.[42]

Sixty MG recipients (68 per cent)[43] reported that they had repaid their loans at the time of the interviews. A closer analysis of the 28 beneficiaries (32 per cent) who had not yet fully repaid their loans shows that about one third (10) had not reached the end of their loan maturities, and another 9 did not provide information on loan maturity or disbursement date, leaving 11 cases of default (13 per cent). However, most of those who had not repaid their loans at the time of the interviews also said that they were not always able to pay their loans on time,[44] suggesting a higher default rate. Additional data reported from seven PFIs indicate that 26 per cent of beneficiaries were in default at the end of the maturity period, but only 10 per cent of the loan principal was overdue. The overall positive assessment of the PFIs interviewed concerning the loan repayment performance of MG beneficiaries suggests that MG recipients do repay. They are no worse than other borrowers, despite sometimes being delayed in repayments.

Disaggregating the data by legal status revealed that about one quarter of individuals and groups were not always able to meet their loan repayment obligations, whereas the share of companies unable to make their payments was slightly higher (36 per cent). However, given the small subsamples, especially for groups and companies, these results need to be interpreted cautiously.

D. Operational dimension

Delays in accessing loans and MGs. There were often long delays between the application for MGs and loan disbursement. Of the recipients surveyed, 41 per cent experienced delays of up to 2 months, while 26 per cent had to wait between 3 and 6 months, 23 per cent between 7 and 12 months, and 10 per cent between 18 and 36 months (see Table 10). Borrowers supported under REP II had a slightly higher occurrence of delays, and these also accounted for a disproportionate number of substantial delays (more than 6 months).[45]

[42] Causes related to terms and conditions or loan packaging include low sales/turnover, a loan duration that is too short or a loan amount that is too small, and the wrong assumptions in the business plan leading to underfunding.

[43] There were 88 valid answers.

[44] Nineteen of 20 valid answers reported that this was the case.

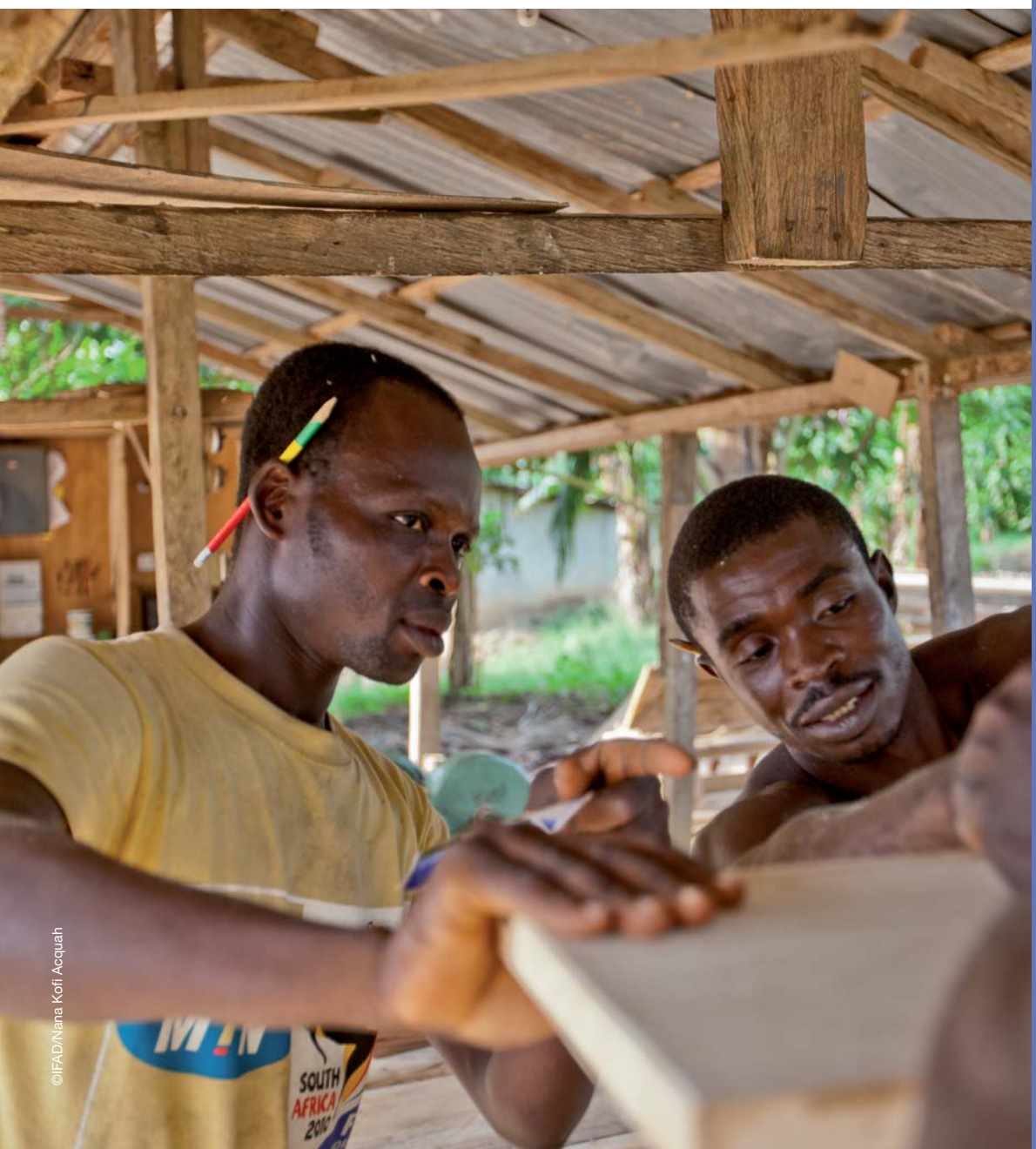
[45] However, the average duration of the delays over six months was not very different: REP II at 14.6 months and RTIMP at 16.6. The cases of substantial delays were not significantly concentrated in a single bank or region.

Table 10: Time between finalizing the loan application and getting the bank loan

Programme	Up to 2 months	3-6 months	7-12 months	More than 12 months	Total
REP II	22 (28%)	13 (17%)	16 (21%)	6 (8%)	57
RTIMP	10 (13%)	7 (9%)	2 (3%)	2 (3%)	21
Total	**32 (41%)**	**20 (26%)**	**18 (23%)**	**8 (10%)**	**78**

In 14 cases, PFIs prefinanced the MGs (REP II: 13 cases; RTIMP: 1). In ten cases, the prefinancing duration was up to 6 months; in one case between 7 months and one year; and for three cases (under REP II) more than 12 months. Hence, the average duration of prefinancing was 6.9 months.

4. Impact of matching grants on participating financial institutions



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4. Impact of matching grants on participating financial institutions

Relative importance of the MG schemes. Over the past three years, ten banks[46] had each disbursed an average volume of 26 loans to MG recipients with a total average portfolio value of GHS 101,630.[47] The number of such loans per bank was in the range of 8 and 77, with a range of loan exposure per single bank between GHS 11,220 and GHS 316,600. The total value of all MG-loans disbursed during the past three years accounted for 0.7 per cent of the combined value of loans outstanding at these banks for the years 2010-2012.[48] Even considering the highest value of 1.7 per cent, these proportions do not indicate that the collaboration with the respective projects was an important factor for the lending activities of the banks. The data support the hypothesis that the banks: (i) saw this as an improved approach over those used in the past and worth giving a try after some initial checks; and (ii) did not explore the opportunities that were offered, but prudently accepted loan applications where these were justified by the figures and the assessment of the applicant. However, there were also variations: while three banks disbursed three to four dozen loans under these MG schemes, others only disbursed a few. In view of the limited number of MGs and the short duration of the scheme, the impact on the lending procedures, terms and conditions has been limited. Nevertheless, the PFI's perceptions of the MG schemes provide some insight into the changes that scaled-up MG programmes could have on rural banks.

4.1 Loans to matching grant recipients versus other business lending

Loan performance compared with other lending operations. The banks were asked to compare loan performance of MG clients with other similar clients borrowing for business purposes along three dimensions: operating costs, repayment performance and profits realized.

[46] Table 22 (Annex 4) provides key performance data for these ten banks.

[47] The median values of 15 grants worth GHS 94,000 are slightly lower, due to one larger value.

[48] This value is used as a proxy indicator. The number and value of loans disbursed during a year were not sought from the banks, as these are not to be reported to the Bank of Ghana and are, therefore, difficult to trace. The number and value of loans disbursed by a typical RCB during a year are usually higher than the number and value outstanding at the end of the year, for the simple reason that RCBs grant many loans of short duration (three to six months) for trading and consumption purposes.

Operating costs. The efficiency of RCBs is hampered mostly by high operating costs, which are equivalent to about 30 per cent of loans outstanding, or 16 per cent of total assets. All RCBs are, therefore, highly sensitive to operating costs. The experience of banks was divided: five thought that operating costs were lower under the MG schemes, three believed they were at the same level and two found them to be higher. The level of engagement in the MG scheme does not correlate with their assessment of operating costs. Banks involved in RTIMP believed their costs to be higher, whereas banks engaged with REP II tended to see a reduction. This result seems consistent with the fact that RTIMP loans were significantly larger and required more thorough appraisal and monitoring than those under REP II. Higher costs were attributed to the more intensive monitoring of clients required and the fact that some clients were start-ups needing more attention. Those banks that anticipated lower operating costs observed that the project (REP II) was efficient in supplying information needed by the bank, clients were ready for borrowing, and fewer inspections were needed because of the preparation and assistance provided by the project. Moreover, the BACs participated in loan monitoring. While reliance on the project and BAC staff for appraisal and monitoring might have helped to instill confidence in banks to serve the target clientele, it may just as likely have put the sustainability of their engagement into question.

Repayment performance. RCBs have been struggling to get repayment rates up over the years, and they are highly conscious of keeping defaults low and reducing them further. Unfortunately, comprehensive data on loan portfolio quality was unavailable for the entire PFI portfolio and the MG loans.[49] Nevertheless, the repayment picture that emerged from the bank interviews concerning the MG clients was clearly positive: seven stated that their loan repayment rates were much higher than those of other similar clients; one found a higher rate; and two stated that the repayment rate was the same as with comparable clients. This result is against a background of average loan loss provisioning in the range of 3.1 to 3.7 per cent of loan amounts outstanding over the past three years for the ten banks. Interestingly, the banks that indicated that the repayment rate was more or less the same were also those that had less exposure of MGs in their portfolios, and lower loan loss provisions over their loan portfolios.[50]

[49] Since the introduction of a new accounting and portfolio management system, backed up at ARB Apex Bank, the MIS of the RCBs is capable of providing reports at any level of disaggregation (client, purpose, etc.).

[50] This result could imply that banks with lower overall portfolio quality were more eager to participate in the MG scheme. However, further investigation would be required to establish such a link.

Moreover, all four banks dealing with RTIMP found their repayment rates higher; these banks also had an above average exposure in MG loans.

These results are contradicted somewhat by the parallel capture of 190 MG loans disbursed by seven rural banks. In this data set, borrowers had repaid 87 per cent of the principal amount by the due date. The remaining 13 per cent in arrears at the due date concerned 39 of the 190 cases (21 per cent), with an average amount in arrears of GHS 2,256. At the time of the survey, almost 8 per cent of the due principal had not yet been repaid. These results are certainly not encouraging. It is interesting to note, though, that 21 of 22 defaults involving amounts greater than GHS 1,000 involved only two banks.

The main causes for default by MG clients included insufficient working capital (mentioned five times), insufficient management skills (mentioned three times), excessive use of cash inflows for consumption instead for business (mentioned three times), a loan duration that was too short in view of the cash flow generated (mentioned two times), and insufficient profits realized by the borrower (mentioned two times).[51] It is interesting to note that the banks, not the clients, determine two of these causes of default. Three of the four banks serving RTIMP clients cited insufficient working capital as a cause for the default experienced.

Profits realized. A good majority of the banks (seven) found the operations with the MG clients more profitable than other comparable clients. Only two banks reported that their profits stayed at the same level and one found that their profits were much lower. There seems to be a positive correlation between higher engagement in the MG schemes and a perception of profits realized, but the number of cases is too small to make substantiated claims. Banks cited a number of reasons for their responses: (i) the MG saved the clients' expenses, which they used to increase their working capital; (ii) the loans were fully repaid and thus led, in combination with lower operating costs, to higher profits; and (iii) MG clients were able to better control the factors affecting their own profitability, which led to better repayment rates.

4.2 Improvements of practices, systems or procedures

The positive changes mentioned have emerged out of the banks' association with the projects, their target groups and their projects and businesses, as follows:

[51] Multiple responses are possible.

- Eight out of nine banks found that the collaboration with the projects and the experience with the MGs helped them to improve their loan appraisal systems, in particular because their loan officers had received training through the projects.
- All eight responding banks believed that the experience helped them to improve their loan monitoring capacity, in particular because of the project monitoring guidelines and the higher frequency of field visits that were required.

As a side benefit, banks learned about the practicality and benefits of disbursing loan proceeds directly to identified suppliers in order to reduce the risk of loan diversion and low quality equipment. It also appears that the experience increased the banks' taste for financing the agricultural sector. By the end of 2012, the share of agricultural loans (including agribusiness) was about 19 per cent of total loans outstanding, which compares favourably to the 4.7 per cent for the entire banking sector.[52] Out of nine banks, seven stated they had plans to increase lending for agriculture production, and nine had plans to increase lending for agribusiness purposes. This intention, however, could only be attributed to RTIMP, not to REP II, which did not have any focus on agriculture or agribusiness.

No clear impacts can be identified as regards:

- Policy to finance start-ups: only three of the ten RCBs agreed in principle to finance start-ups, while seven refused the option. In the absence of longitudinal data, no conclusion can be drawn whether the preparedness has changed over time.
- Changes regarding the proportion of loans to clients with similar characteristics as the MG clients: five banks had increased the proportion of loans to clients, while three had reduced them, with two banks indicating no change.
- The provision of term finance for clients with similar characteristics as the MG recipients: three banks had increased the proportion of term finance, while another three banks had not experienced any changes.
- Risk management practices.

[52] Bank of Ghana, *Annual Report 2012*, p. 16. RCBs are considered part of the group of deposit money banks. However, their share of agricultural loans is most likely much higher than that of commercial banks. Unfortunately, we were not able to get sufficient data on such qualitative changes in portfolio structure within the group of 20 RCBs that financed MGs, nor from the commercial banking sector.

Collateral. The evidence collected during the fieldwork is far from clear and comprehensive when it comes to collateral. One finding is that several RCBs still have collateral requirements in their terms and conditions, which are not entirely compatible with the principles of MSE finance. For example, for loans below GHS 2,000 (≈US$1,000), two RCBs asked for mortgages and four required two salaried guarantors. Most MSEs in rural areas find it difficult to meet either of these requirements. A few banks stated explicitly that without the MG, they would have to increase the collateral requirements and would more carefully consider the business sector to be financed by their loan. If this approach can be said to apply more generally, it would imply that the banks reacted positively to the request of clients and to their projects, that they were flexible in terms of trying something new and more favourable to their clients, and that they were willing to waive some of their traditional and stricter banking approaches.

It should be noted that the RCB network has not yet revised its collateral policies, which are not designed to respond to an environment of increasing competition in rural finance, but are geared towards securing repayment in an environment where the demand for loans is much higher than the availability. While MGs may induce RCBs to experiment with lowering collateral requirements, the limited number of MGs and their short track record cannot be expected to have a major impact on collateral requirements of PFIs.

Term finance results are likewise inconclusive. There are a number of key constraints facing RCBs that result in the inadequate provision of term loans to investors, especially rural MSEs:

- RCBs are not fully conversant with the loan appraisal of term projects of MSEs, and, therefore, tend to reduce the repayment period to one year, even if this would imply squeezing out liquidity from the borrower at the expense of a more healthy growth.
- Seven of the ten banks on which data on term loans were available had slightly more than half of their loan portfolio in term loans (50.3 per cent of the loans outstanding); this shows that the banks can and actually do provide term finance. However, RCBs do not see MSEs as a preferred target group, and they do not allocate their scarce term resources for them, but to those clients in which they have greater confidence.
- Over and above their weaknesses in appraising investment projects and structure repayment periods in line with cash flow projections, RCBs face asset/liability mismatches restricting their ability to increase their overall exposure into term finance.

In Ghana, RCBs have, in principle, access to term refinancing from a number of sources, including the ARB Apex Bank. However, access conditions stipulate that only those with good performance and balance sheets can access these sources. Other factors mitigating against more term lending by RCBs are high collateral coverage requirements, high reserve requirements, and low capacity to appraise and properly structure term loans. Hence, it appears that it would require a number of measures to remove these obstacles to extend the proportion of term loans by RCBs to MSEs way above their current levels.

4.3 Willingness to provide loans without grant support

Banks were positive in their overall assessment of project outcomes. Nearly all banks (9 out of 10) stated that they would participate again in the MG scheme because the MG projects created income for the client, motivated clients to repay, eased the liquidity situation for the bank, met the demand in the market, brought in clients to the bank that would otherwise not have come to the bank, and helped to generate positive marketing of the RCBs in the process.

This positive response was confirmed in a number of similar questions. Asked about their future plan with regard to granting loans to MG recipients, four banks wanted to continue, five wanted to expand, and only one bank was eager to decrease its engagement. Nearly all banks (90 per cent) found that the schemes are working well, the impact on clients was good, loan recovery was higher than without MGs, the bank could increase its revenues, their liquidity constraints were reduced, and there was good marketing of the bank's services as a result.

Respondents were further asked to rate their extent of satisfaction with or willingness regarding some important expected outcomes on a scale from 1 to 10.[53] Given an average value of all responses of 7.7, as indicated in Table 11, scores below this value are to be seen as expressions of relative dissatisfaction and those above that value as signs of greater consent, satisfaction or preparedness to act. There does not seem to be a correlation between a lower average rating along these dimensions and the level of engagement in MG schemes, or views about their profitability and repayment performance.

[53] Under an assumption of equal distribution, the average value would thus be 5.5 on the given scale. As the responses are relational assessments, they are to be interpreted accordingly, that is, not by their absolute values, but through the differences between scores.

Table 11: Views of banks regarding key outcomes

Scoring of dimension on scale from 1 to 10	Mean	Median	Minimum
Extent of fit of the MG scheme into the overall strategies and visions of the bank	8.7	9.0	6.0
Extent to which the contribution of one MG to the client will result in their retention as permanent loan clients of the bank	8.4	8.5	6.5
Extent of confidence of the bank in the type of investments for which MGs were provided	8.1	8.5	3.5
Extent of satisfaction with the technical preparation of MG recipients by the project or external parties/service providers	7.9	8.0	2.6
Extent of confidence of the bank with the types of clients and enterprises that received the MGs	7.8	8.5	2.5
Extent of satisfaction with the business plans prepared for the borrower by the project or external parties/service providers	7.7	8.0	2.5
Extent of contribution of the MG to reduce the risks to the bank	7.6	7.5	5.5
Extent of satisfaction with the selection and pre-appraisal of borrowers by the project or external parties/service providers	7.4	8.0	2.5
Extent of willingness of the bank to provide loans without MGs to the type of investments for which MGs were provided	6.9	7.4	3.0
Extent of willingness of the bank to provide loans without MGs to the type of clients and enterprises that received the MGs	6.8	8.0	2.0
All values (N = 94)	**7.7**	**8.0**	

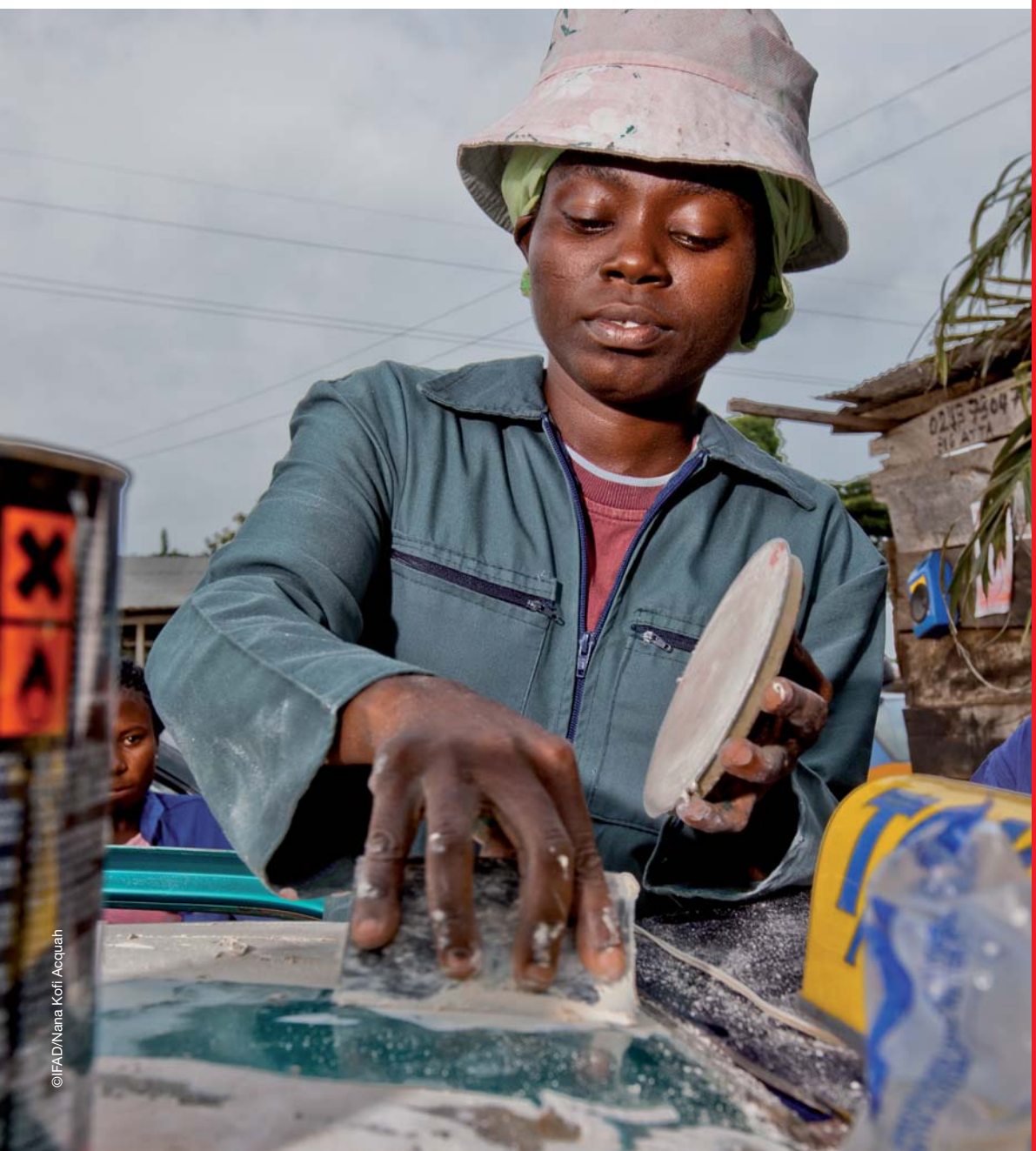
The ultimate litmus test for the MGs is the sustainability of the institutional solutions. Sustainability is measured in terms of the willingness of banks to provide loans without grant support in the future to existing or to new MSEs with similar characteristics and for similar investment projects. When asked about their willingness to finance similar investments in the future without MG support, out of the nine responses, two banks stated that they could finance the investment costs,[54] and the remaining seven banks suggested that the bank could finance 50-70 per cent of the total investment costs.[55] One bank that opted for financing up to 100 per cent of the costs believed that clients were more cautious and worked

[54] This financing would be minus the required contribution of the investor.

[55] Range: 50-100 per cent. Mean value: 64 per cent, median value: 50 per cent. This response goes back to the more classical approaches applied by the RCBs requesting collateral savings of about one third of the loan amount.

harder when they knew all the money they received had to be paid back, but would tend to be irresponsible if given a grant. These results suggest that a MG share of 30 per cent is about the right proportion, unless clients can be assisted to mobilize higher equity contributions (e.g. via targeted investment savings schemes). The results would have to be analysed further by comparing the characteristics of existing clients receiving unsubsidized term finance with those of MG recipients.

5. Main findings and recommendations



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5. Main findings and recommendations

5.1 Main empirical findings

Overall, the MG-plus-loan approach had a positive impact on clients as measured along various dimensions.

Technical dimensions. Beneficiaries were generally satisfied with the quality of the equipment and the technical support services provided by the programme, and no significant difference could be found between the programmes in this regard.[56] Most beneficiaries established a reserve fund for operating and maintenance costs of machinery, and eventual equipment replacement. This result is an important achievement, and it is most likely due to the sensitization and training provided under both programmes. Still, access to spare parts and repair services remained a problem for more than half of the beneficiaries.

Economic and financial outcomes. Survey results suggest positive financial outcomes. About four fifths of all interviewed beneficiaries reported a doubling or even tripling of their sales and profits after the MG cofinanced investments. The satisfaction with the financial results was somewhat lower, which may partially reflect the overly optimistic expectations of some beneficiaries and their discontent with loan interest rates. Within a period of about 2.1 years, the sampled 99 MG recipients had generated 77 jobs (full-time equivalents). On average, an MG for generating one full-time job was GHS 1,391 under REP II, which is much lower than the MG under RTIMP at GHS 4,329. Overall, the employment level of MG beneficiary enterprises has increased by 23 per cent, with RTIMP clients showing a larger increase than REP II clients (33 per cent against 18 per cent, respectively).

Access to finance. Both projects have done very well in terms of making trainees and investors realize the need for more targeted savings with banks and,

[56] While 20 per cent of respondents experienced technical breakdowns, such results would need to be compared with those of a control group to better understand the context concerning technical quality and reliability of equipment and related construction work carried out by rural MSEs.

in particular, for creating dedicated reserve accounts for operation and maintenance of their machinery. More than half of MG beneficiaries had not taken loans from banks before, and almost a quarter have already received loans after the MG. A comparison with a control group of other bank borrowers with similar characteristics would be needed to show more clearly to what extent this increase is attributable to the MG. The impact of MGs on the overall size of the financing package accessed by beneficiaries (MG-plus-loans) is more varied. An analysis of repeat borrowers shows that total amounts increased for those who had taken loans prior to the MG (43 per cent of all beneficiaries). However, loan sizes were slightly lower than before in the case of REP II, and they remained at similar levels in the case of RTIMP. For clients receiving follow-up loans, average amounts were larger than the financial package (MG-plus-loan). While this analysis should be validated with a larger sample and with a control group, results indicate that MGs contributed to larger investable funds and larger follow-up loans.

The impact on loan maturities has been very limited. Less than 20 per cent of all loans had durations beyond one year, and most of these were given to RTIMP clients. An analysis of REP II repeat borrowers shows that the MG contributed to an extension of the loan maturities from an average of 7 months to 12 months. Nevertheless, one of the central purposes for the MG – to enable PFIs to provide and clients to repay medium-term loans at market rates – was not achieved in a satisfactory manner. The main reason for this gap seems to be the risk aversion of PFIs and their limited ability to appraise investment loans and to structure loan terms according to projected cash flows. A further reason could be the limited access of PFIs to long-term funding sources, though this constraint did not apply to those participating in REP II since this project established a medium-term refinance facility for this purpose.

Beneficiaries expressed a relatively low level of satisfaction with the terms and conditions of the loans received from PFIs. In addition to complaints about high interest rates, almost half of the respondents considered loan amounts insufficient to meet their full investment and incremental working capital requirements. Moreover, about one quarter had to raise additional funds to complete the investments, and almost half experienced working capital shortages after the investment. Even though most respondents eventually managed to mobilize additional working capital, shortages of such funds undermined the profitability of the investment and increased the risk of loan default. While 60 per cent of all respondents stated that working capital requirements were not sufficiently

considered during loan appraisal, this result is not entirely attributable to PFIs. Project design and implementation lacked clarity as to whether incremental working capital would be eligible under the MG-plus-loan scheme. Actually, RTIMP advised PFIs not to continue including working capital, following a recommendation of an IFAD supervision mission.

Operational aspects. The projects using the MG-plus-loan approach faced considerable implementation delays.[57] Problems included attracting and accrediting PFIs (some of which had had negative experiences with other donor-funded programmes), building capacity, and achieving full understanding of the approach among project implementers. The participation of PFIs has been slow and uneven, and it has only gradually picked up, with a few RCBs accounting for most of the MG portfolio. Another important operational problem was the considerable delay between the approval of the MG-plus-loans by PFIs and the disbursement of funds by ARB Apex Bank (RTIMP) and Bank of Ghana (REP II). Only 41 per cent of MG beneficiaries received their MGs within 2 months after application, whereas 23 per cent experienced delays between 7 and 12 months, and 10 per cent between 18 and 36 months. In response to pressure from clients, and in order to maintain their reputation, several PFIs prefinanced 90 per cent of the investment amount from their own resources using the MG to cofinance follow-up loans for those meeting their repayment obligations. While the flexibility of the banks concerned must be appreciated, the delays dented the profit margins of the MSEs.

Impacts on banks. Despite hesitation at the beginning, most of the interviewed banks were positive about the experiences with the scheme, and they expressed interest in continuing and expanding their participation. The more active PFIs used the MG to offer increased financing to existing customers and to broaden their client base. The majority of PFIs considered the MG loans more profitable than other loans, either due to higher repayment rates or lower operating costs, or both. In any case, the preparation of clients by the projects and the provision of post-investment support were broadly cited as contributing factors, along with sensitization about the importance of loan repayment. No instances of politically motivated imposition of borrowers were reported under the MG scheme (contrary to earlier experience with a credit facility provided by REP II). Some positive impacts were also reported

[57] RCBs are notorious for slow and late disbursement of loans. This MG inefficiency was exacerbating an existing problem.

on the capacity of banks to appraise and monitor investment loans. Indications about reducing collateral requirements remained limited and inconclusive.

The picture on the repayment performance is not clear. Despite provisions in the project manuals for quarterly data collection, this was done sporadically by the PCUs and ARB Apex Bank. As a result, no comprehensive data were available or could be retrieved during this assessment. Available evidence points towards moderate to high rates of late payments, with a third of all respondents stating that they were not always able to make their loan payments on time. On the other hand, loan recovery rates at and after the end of the maturity period appeared to be much higher. This result is also supported by the perception of most PFIs that repayment performance under the MG scheme was better than for their average loan portfolios. In any case, a more in-depth assessment of portfolio quality and recovery rates would be required to reach stronger and more evidence-based conclusions.

The preparedness of banks to finance similar clients and investments without MG resulted in a more mixed picture. On the one hand, the majority of banks stated their willingness to continue financing MG recipients in the future, and available data seem to support this view. Their willingness to finance similar investments for the same or different clients is less clear, especially in relation to larger investments such as those supported by RTIMP. Most banks indicated their willingness to finance between 50 per cent and 70 per cent of the total investment costs, which was similar to the situation without MGs. As neither the extension of the grants over longer periods of time, the increase of the grant element or the increase of the numbers are options under donor funding, the main question would be what "exit" measures to envisage to enhance the gradual and increasing "entry" of financial institutions to the financing of similar investments and investors in the future.

5.2 Lessons learned

1. **The MG-plus-loan approach is an advance over pure MGs or subsidized credit lines.** It helped mobilize commercial capital for agricultural/rural investments of rural MSEs, and it allowed some of them to establish a successful track record in banking relationships. Where feasible, linkages with the financial sector should be envisaged given that banks are better equipped than grant committees to assess the financial viability of investments and clients. Moreover, a systematic link with banks helps MSEs: (i) to create financial reserves for unforeseen expenses, operations and maintenance, and replacement of obsolete equipment; and (ii) to establish and maintain their creditworthiness through

timely loan repayment and regular savings beyond the one-off grant. The efforts made under both projects to encourage savings must be appreciated.

2. **The formula of 30 per cent for the MG, 10 per cent for equity contribution and 60 per cent bank loan was appropriate in the two programmes.** A 60 per cent risk exposure provides the necessary incentive for banks to carefully appraise clients and investments, whereas a 30 per cent grant reduces collateral requirements and makes investments more accessible to IFAD target groups. RTIMP increased the MG share to 40 per cent during implementation in order to accommodate the funding shortages of banks and to incentivize them to participate. However, such a high grant percentage might not be the most appropriate way to achieve this agenda as it weakens the risk exposure of banks and thus their incentive to conduct proper due diligence. In fact, a 40 per cent MG combined with the value of the financed assets and short loan maturities (and the possibility to register this asset at a low cost at the Bank of Ghana) may lead to a situation where, with their reduced risk, banks may become lenient in their appraisal. The approach chosen by REP II to establish a medium-term refinance facility seems more suitable to address funding constraints, even though it did not lead to the anticipated extension of loan maturities.

3. **The combination of training, coaching and financial support is instrumental for success.** So-called "credit-only" approaches are less suitable for persons interested in moving on with their small businesses, but who lack knowledge or confidence to move from intention to implementation. The provision of training in technical and managerial domains, financial management and guidance on how to apply for loans by the BACs all improved the bankability of REP II clients along with the success rate of their businesses. BAC managers also maintained close links with local financial institutions, invited loan officers to their meetings and recommended good graduates to the local banks. In the case of RTIMP, which has a narrower mandate, specific technical training on the innovations around the production and processing of root and tuber crops was provided. Occasionally, these MSEs were also invited to training courses on other relevant topics. Interviews with beneficiaries and loan officers confirmed that the combination of capacity-building, coaching and access to finance (loans and MGs) was a key to success in the two programmes.

4. **The time and human resource requirements for implementing and supervising the MG-plus-loan approach need to be clearly reflected during design.** The establishment of MG operations, of whatever scale, is time-intensive, requiring substantial efforts, human resources, dialogue with a range of partners and institutions, and communications. The time needed to get a MG scheme running is often underestimated, and it is unreasonable to assume that MGs can be implemented quickly or that visible results in a funded project will be achieved in a short time. MG-plus-loan approaches, in particular, are more complex than pure MGs and may slow down the implementation process. Selecting the right staff, bringing banks on board, informing clients and government bodies involved, avoiding elite capture, having systems in place for data capturing and monitoring of subprojects are no easy tasks.

   All projects using the MG-plus-loan approach in Ghana were fraught with long delays in getting the scheme operational, which, in the case of the two programmes analysed, was only achieved during the second-half of their implementation periods. The delays may also be due to the relatively low profile of the MG scheme within the overall programme design. If the approach is used and expected to deliver on its dual goals – investment promotion and financial inclusion – then more efforts need to be made to fully mainstream it into the design and implementation structure. This includes appropriate logical framework targets, indicators and staffing, combined with stepped-up efforts to ensure full understanding by the implementers of the approach and its dual objectives. Such efforts are only worthwhile for projects of a longer duration (more than four years), unless qualified and experienced staff can be recruited, or the implementation can be delegated to an experienced firm.

5. **Delays in MG approval and disbursement reduce the effectiveness of the approach.** In the two programmes analysed, the approval and disbursement structure was not efficient, leading to long delays between loan approval by PFIs and the disbursement of the MG funds. While it appears that the banks were not responsible for most of these delays,[58] it should be emphasized that such delays are a consequence of design attempts to ensure that (i) target groups are reached with as little leakage and loss as possible, and that (ii) there is full

[58] It has not been possible to obtain the relevant data on the dates of receipt of applications and transmission to the next institution after decision-making at each of the different institutions involved (bank, project, IFAD country office, ARB Apex Bank, Bank of Ghana).

compliance with procedures, terms and conditions. The more layers and instances of approval that are involved, the longer the resulting delays, to the detriment of the target groups. Delays in MG disbursement also defeat the purpose of investment promotion and linking beneficiaries with banks. Hence, the need for multiple checks and approval levels geared at maximizing targeting and avoiding leakages should be assessed carefully in order not to undermine the speed and smoothness of operations.[59] Payment of intermediaries charged with grant management and related reporting should be linked to performance targets, such as maximum permissible delays and compliance with reporting requirements at the PFI level.

6. **A strong point of design consisted in making the MG contingent on the willingness of PFIs to bear the full credit risks and not interfere in loan appraisal procedures, terms and conditions.** A related, more complex issue is whether, and to what extent, parallel appraisals of investments and business plans should be made by project management or subcontracted agencies. In the two programmes, considerable efforts were made to help PFIs in their due diligence and appraisal process, and this was generally appreciated by the banks, increasing their confidence with clients and investments. There are some indications, though, that some banks may have relied too much on appraisals and recommendations from projects, especially in combination with a 40 per cent MG. Hence, this trade-off needs to be managed carefully.

7. **Addressing incremental working capital requirements is crucial.** Investment in additional or larger productive assets typically requires incremental working capital, which can sometimes be as high as the investment itself. Failure to include the incremental working capital requirements and the investor's ability to mobilize it can undermine the profitability of the investment and lead to loan default. Incremental working capital should, therefore, be regarded as part of the investment. If, as in the cases of REP II and RTIMP, only equipment is eligible for MG finance, care needs to be taken to ensure that incremental working capital requirements are assessed and addressed at loan appraisal, either by providing an additional working capital loan or by ensuring that the investor can mobilize sufficient working capital through savings or other sources.

[59] The fact that several PFIs have prefinanced 90 per cent of the subproject costs in several cases when MG disbursement was delayed (especially for REP II clients) proves the perceived viability of clients, but it also raises questions about the need for the MG to make the investments financially viable, at least in these cases.

8. **The effectiveness of the MG-plus-loan approach depends on the performance of PFIs and their capacity to service target groups efficiently.** Only financial institutions with strong systems, procedures and staff capacity are able to appraise and monitor loans effectively and efficiently and provide follow-up financing as appropriate. RCBs have challenges in these respects. Project design needs to assess strengths and weaknesses of potential PFIs, and tailored technical assistance and capacity development need to be included as project activities, with adequate funding and staffing at the PMU level. In the two programmes, the capacity of project staff to fully understand rural finance issues and work out practical solutions within programme management has been low.[60] Moreover, the dialogue with PFIs has been shallow, irregular and focused on programme needs. No systematic assessment of the training needs of the banks seems to have taken place, and training contents were more geared to project procedures, monitoring and reporting, rather than real capacity development. One of the fundamental weaknesses of the RCBs was the loan appraisal of term and investment loans. In particular, those appraisals related to agricultural projects, those with higher complexity levels and those involving the calculation of incremental working capital requirements have not been addressed. Presumably, both programmes were designed with the assumption that IFAD-funded rural finance projects[61] would take care of training and capacity development of PFIs, but this link did not materialize sufficiently during implementation.

9. **The main justification for MG schemes needs to be defined more clearly and reflected in the design and implementation strategy.** The subsidies provided by the MGs are justified for a number of reasons: (i) the high rates of interest above the profit rates achieved by MSEs prevent them from borrowing from RCBs; (ii) MSEs need access to loans, which they did not have at the programme appraisal stage; (iii) there is a desire to facilitate start-ups of groups (especially women's enterprise groups) and youths to "graduate" from training and asset transfer to accessing their first commercial loan; (iv) target groups cannot comply with the collateral requirements of the banks; and (v) innovative technologies and production systems, particularly with respect to climate change adaptation, will not attract any financing by financial institutions because they are not yet tried and tested. The results of this survey show that the MG design and implementation only partially succeeded in addressing these various constraints.

[60] The hiring of a young, talented loan officer under the REP II who worked for a rural bank before may constitute an improvement.

[61] These projects were the Rural Financial Services Programme followed by the Rural and Agricultural Finance Programme.

- The main argument for MGs rests in the combination of high interest rates and longer loan maturities needed for investment finance, resulting in prohibitive financing costs. No analysis seems to have been carried out during project design to point to the need for an MG to make profitable investments financially viable. Moreover, in practice, only a few MG cofinanced loans had a duration beyond one year, and these were mostly in the case of RTIMP. For the bulk of the REP II beneficiaries with a 12-month repayment period, the MG resulted in an interest-free loan (when interest rates were at 30 per cent per annum). Given that more than a third of MG beneficiaries had already taken loans of a similar size before, and that MGs were prefinanced by PFIs when there were operational delays, it is questionable whether MGs were really needed to make the investments affordable, at least in the cases of REP II clients.
- Neither programme excelled in financing start-ups.[62] While RTIMP targeted existing cassava processing enterprises, most REP II MGs went to established MSEs rather than to those in the early stages of development,[63] which may indicate PFI reluctance to finance start-ups. Therefore, the 30 per cent MG may be too low to overcome this aversion.
- While the prevailing collateral policies of RCBs can be criticized for being inappropriate in some respects, most banks offer microloans to clients without collateral, or against collateral requirements that are not out of reach for MSEs.
- Minimal innovative technology was promoted under REP II; instead, existing business models, and tried and tested equipment were strongly favoured. Some innovative technologies were propagated under RTIMP but, to date, no effort has been undertaken to prepare a concise guide on the viability and feasibility of these technologies that can be shared with partner banks.
- The survey revealed that more than half of MG recipients were first-time borrowers, and a significant share of MG recipients received follow-up loans of a larger size (even though not of a longer duration). This trend indicates the potential of the instrument as a "matchmaker", bringing banks and customers together (even though the degree of additionality should be ascertained through a control group of PFI borrowers with similar characteristics).

[62] Eleven per cent of REP II MG recipients and 25 per cent of RTIMP recipients were start-ups with less than one year of experience.

[63] This is not to say that start-ups are not important, or even essential, when promoting MSEs. However, as start-ups were not financed, this point should not be used as justification for subsidies.

The main purpose of the MG would then be to provide evidence that: (i) the clients are creditworthy and merit receiving loans on conditions that they are able to comply with; and that (ii) the innovations introduced are profitable and lead to incremental gains on the sides of both the investor and the financier. In order to make a more convincing case for banks, the economic and financial results of the cofinanced investments would have to be monitored and documented more systematically and rigorously by the projects.

10. **MGs can do little to overcome broader issues and constraints to rural finance and should, therefore, be targeted more carefully.** The experiences of both programmes show that few programme beneficiaries are able to receive an MG, due to both operational and budget constraints. MGs cannot address issues such as high interest rates, which would require measures to increase the operational efficiency and competitive pressure in the financial system. Hence, MGs need to be targeted more carefully to maximize their additionality (e.g. term loans for first-time borrowers or other specific target groups). Depending on the purpose and target group, the MG percentage may have to be adjusted (e.g. slightly higher for start-ups or group enterprises with a limited track record, and slightly lower for first-time borrowers where "matchmaking" is the main purpose).

11. **M&E.** Despite the use of the MG-plus-loan approach in six projects so far and its replication in new designs, the paucity of monitoring data and the lack of impact or process evaluations are appalling. While periodic reporting requirements on output and outcome indicators (including the portfolio quality of the MG cofinancing loans) are established in the project manuals, in practice, reporting was grossly inadequate.

5.3 Recommendations

Recommendations on designing and implementing matching grants

1. Stronger justifications should be provided for the introduction of MGs, based on a financial analysis of a range of eligible subprojects to show that MGs are needed: (i) to make profitable projects acceptable for bank finance; (ii) to provide clear public good elements (such as the introduction of stainless steel frying pans under RTIMP with clear public health benefits, but uncertain

financial viability for investors); and/or (iii) to finance start-ups or target first-time borrowers. Whatever rationale is used should be fully justified by facts and figures, clearly stated and transformed into logical framework targets, and indicators should be provided to allow M&E. Where such evidence is not provided in draft design reports, the claim that MGs are needed should be rejected. Where claims are made for support of specific target groups, implementation arrangements should clearly show that these claims are matched by corresponding support activities. For example, in the case of start-ups, more complex and wider support arrangements are needed than for established MSEs, and it is irrational to expect that financial institutions will finance these on the same terms and conditions as they do for more experienced entrepreneurs. It may, therefore, be advisable not to include start-ups as potential beneficiaries, unless the project concentrates fully on this target group.

2. All entrepreneurs need working capital, and most entrepreneurs do not have sufficient working capital. Designers need to acknowledge this condition and address this requirement in design. As funds are scarce, in most cases it makes sense not to fund working capital as part of the MG package. Exceptions to this rule should be justified through solid empirical evidence. This, however, implies that the availability of sufficient working capital is made an integral part of the assessment process. Institutions and staff in charge of the process will, therefore, have to assess whether the grant recipient has sufficient working capital and, if not, that a financial institution or third party will guarantee its availability as required. Partners in the financial sector will need to be made aware of the issue, and solutions for addressing it will have to be found. Applications from potential beneficiaries who cannot finance their working capital needs will have to be rejected.
3. Several options for exit strategies emerge. The first one is a dedicated savings process of potential investors to meet the requirements for down payments, especially in zones into which the project expands after the first trials. Second, more financing through leases would allow the lender to maintain the centre of control over the assets. Third, where the viability of an investment prototype has been firmly established, the grant amount should be reduced or brought back to zero, as determined by circumstances.[64]
4. Logical frameworks of projects comprising MGs should include outcome/effectiveness aspects as well as efficiency elements, and they should oblige project management to measure delays and costs of the schemes.

[64] Elements to consider that may increase the credibility of information include regional variation, innovativeness of the financial sector and level of competition of banks.

5. As with all other relevant project activities, MG schemes need a sufficient number of qualified personnel. Unless adequate provisions for the associated costs are guaranteed, MG schemes should not be proposed. The implementation of the scheme could be delegated only to a country portfolio that has a dedicated rural finance project with dedicated rural finance professional staff.
6. Proper monitoring of core output and outcome indicators and reporting frameworks are key to monitoring progress and evaluating effectiveness and impact. Indicators and frameworks should be elaborated in cooperation with potential PFIs and enforced during implementation. Provisions should be made to integrate reporting obligations in management information systems (MISs) of the PFIs as feasible.
7. When, in view of the cash flow generated, innovations should be financed through term loans, but where banks have insufficient term resources for lending, where term finance is an impediment to financing MSEs and where PFIs do not have access to term refinance facilities, design teams should reflect on the need to assist governments. This assistance to provide term finance for specific investments should probably come through the government's central banks or specialized institutions. Ideally, it should be provided with a long-term goal for the respective country, and not be linked solely to the project.
8. The less experienced the MSEs are, the more innovative or new the technologies promoted are, and the more start-ups are supported, the more important become capacity development initiatives to strengthen the target enterprises. The possible solutions should be examined in terms of their potential effectiveness, efficiency and sustainability, as with all other planned interventions. In many, but not all environments, capacity development activities are indispensable ingredients for the development and success of MSEs.
9. Project implementation manuals should provide guidance on the length of processing, and they should make reporting on the duration of steps mandatory. Annual project reports should contain simple statistics on the duration of single steps, and what has been and will be done to reduce redundancies and unnecessary red tape.

Recommendations on collaborating with financial institutions

1. Linkages with financial institutions can only lead to the desired outcomes (in terms of project objectives) if the interests of the banks are considered in the design, and if they are able to provide what designers and financiers expect them to do, be it short-term working capital loans or term finance for asset acquisition.

2. Whatever concept is applied to bring the financial sector in, all aspects should also be conceived from a bank's perspective, not just from the perspective of pursuing the interests of the target groups.
3. The capacity of banks under a linkage programme should be carefully appraised, and adequate provisions should be made for professional training over and above the mere communication of project concerns.
4. Training loan officers on the merits of financing MSEs, on the technology promoted, and in loan appraisal techniques related to the businesses may often, but not always, be needed. Where needed, such training should not degenerate into repeating the advice of project implementation manuals, but should be done from a banker's perspective, not from a project perspective alone.
5. Regular dialogue with PFIs should begin at the design stage. Project management and PFIs should collaborate on such things as results achieved, possible areas of improvements, appropriate terms and conditions of services, coordination of the banks' MIS and the project's M&E systems and approaches, operating costs and loan losses of banks, and the needs for capacity-building of PFIs to better respond to the demand from MSEs.
6. Project management should offer assistance in reviewing and realigning credit products of PFIs on a demand basis, where their products, systems and procedures are not appropriate to serve the target groups.
7. The main determinants of bank decisions related to the financing of businesses are transaction and operating costs, risks and repayment performance. The first aspect is measured in terms of operating costs, the latter two in terms of loan loss provisioning or final loan losses. Unless the repayment rates achieved under a project partnership are above the average repayment rates of the respective bank, a bank will likely not be interested in continuing with the business line. Repayment performance may be influenced in many different ways, and all efforts should be undertaken to improve repayment rates. One possible approach to improve repayment is to introduce a provision that the grant will only be disbursed to a client via her/his banker if the bank loan has been repaid in accordance with the repayment schedule. Through this approach, grantees are likely to increase their efforts to obtain the grant. However, such an approach would only be feasible where the goal is not to promote unknown technology, where the feasibility and viability of the respective investments are principally established, and where borrowing from banks is socially and culturally accepted. Such an approach also has the positive side effect of substantially reducing the need for term finance, thereby encouraging banks to extend the loan duration.

8. The involvement of persons from outside the financial institutions is problematic. Principally, where banks are requested to approve loans at their own risk, they, and only they should do the loan appraisal. The involvement of outsiders tends to take away the banks' responsibility, provides room for misunderstandings and overstepping, and is not sustainable. Where financial institutions are asking for assistance in this field, outsiders should not be invited to participate in loan appraisal. Project management, on the other hand, needs to ascertain compliance of grant beneficiaries with MG conditions. To the extent possible, management should rely on the expertise of bank appraisals with regard to the commercial aspects of projects.
9. Operational aspects should be regularly discussed with PFIs, and their proposals sought on how to streamline implementation processes and make them more target group- and business-oriented.

Recommendations on enhancing the prospects of sustainability

1. There needs to be clear communication from the beginning that the ultimate goal of the subsidies is not only to promote the selected MSEs and to achieve the project goals, but also to promote sustainable access to financial services and a stronger engagement of financial institutions in financing MSEs.
2. There needs to be regular checking as to whether banks are able to make a profit from the operations. This monitoring involves knowing/assessing the operating costs of banks and the repayments of grant recipients. Unless banks make a profit, they are not likely to continue providing their services after the end of the project. Pushing banks to reduce their interest rates and fees may provide short-term gains, but may affect the goal of sustainability if banks do not see a profit as a result. In addition, negotiations about fees and interest rate reductions would be facilitated with known costs and loan losses along with formulas developed to reduce these. Therefore, PFIs should be assisted to develop a cost accounting system to carry out activities-based costing. Such an investment would improve the operational efficiency, products and services of PFIs and would eventually reduce their interest rates.
3. Projects promoting technical innovations possess valuable data that are not being used effectively. Financial institutions are primarily interested in core business data coming from the enterprises and on technical guidance for the innovations. These data would help them assess business plans and cash flow projections, and would allow them to conduct a more reliable financial analysis and risk assessment of the innovation and their markets.

Ideally, project administration should prepare and regularly update technical briefs that could be used by banks for their loan appraisals.

4. M&E should not just collect data to assess the project's progress, but should also excerpt relevant data related to their partners in the financial sector and present them with an overview of achievements related to financing of MSEs. All projects with MG instrument components should have strict M&E systems in place and dedicated project staff in charge of M&E and MG control functions.

Recommendations on terms and conditions of financial services

1. Where equipment is to be financed, a cash flow projection should be made compulsory before any decisions on grants or loans are made, and the incremental working capital requirements should be projected in each case. While simplified or standardized models based on evidence collected may be used, these must be checked against reality.
2. Project management should watch that borrowers actually have the working capital needed in the model assumptions made, and that repayment schedules match the projected cash flow.

   Without functioning M&E units that also provide the management information needed by PFIs, the outcomes and impacts will remain limited.

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Annex 1: Financial sector in Ghana

Overview. Overall, Ghana's financial sector is fairly well developed. At the end of 2012,[65] the sector was made up of the Bank of Ghana as the central bank, 26 commercial banks, 136 RCBs operating under their apex structure, the ARB Apex Bank, 26 finance companies, 21 savings and loan companies, 2 leasing companies, 1 mortgage finance institution, 90 microfinance institutions (MFIs)[66] and 3 credit bureaus. Other important players in the semi-formal sector are the credit unions[67] and the daily deposit collectors called *susu*[68] along with a vast number of rotating and accumulative savings and credit associations also generally referred to as *susu*.[69] The total number of branches of commercial banks and RCBs was 859, of which 624 were RCB agencies and 235 were bank branches, giving a branch density of one transaction counter per 29,800 persons. Total formal financial sector assets stood at GHS 31.44 billion, deposit liabilities at 22.15 billion and total loans outstanding at GHS 13.78 billion, equivalent to 43 per cent, 30.3 per cent and 18.9 per cent of gross domestic product (GDP), respectively. Total bank loans to the private sector stood at 15.7 per cent of GDP, a comparatively low value that points to problems with financial intermediation, even though the growth of loans has been significant over the past years.[70]

Financial inclusion. A survey on financial inclusion following the FinScope methodology was conducted in Ghana in 2010.[71] According to the statistically representative sample, 56 per cent of adults use financial services, while 44 per cent do not. Coverage rates, as elsewhere in African surveys conducted, are higher for urban areas and SMEs, and are lower for rural areas and the farming population. Given that most, and all big, enterprises pay out wages only through banks, it is not surprising that most wage earners have bank accounts. With the exception of wage earners, one

[65] Data for this annex have been taken from the Bank of Ghana, *Annual Report 2012*; and the *Economists Intelligence Unit Country Report Ghana*, July 2013. Data on RCBs were also obtained from the annual report and the unaudited monitoring data of the ARB Apex Bank. Qualitative information about RCBs has been derived from field interviews and discussions with experts.

[66] Of these MFIs, 77 are deposit-taking institutions, 11 are credit-only institutions and 2 are financial NGOs.

[67] Their apex body, the Credit Union Association, claims a total of 433 credit unions serving 336,137 members with outstanding loans of GHS 114.84 million as of June 2010. See http://www.cuagh.com/images/media/cua%20data %20on%20credit%202010.pdf.

[68] These are also organized in the Ghana Cooperative Susu Collectors Association, which was established in 1994 as an umbrella organization. The association claims to have ten regional cooperative societies in all ten regions of Ghana serving 218,536 clients in 2012. See http://www.ghanasusu.com/. It should be noted that many RCBs copied the *susu* daily deposit collection model as a bank product, which they often call "*susu* savings."

[69] This term is used in addition to other terms in vernacular languages.

[70] Growth of loans was 31 per cent greater in 2012 than in 2011.

[71] Data excerpted from FinScope 2010.

in ten adults in all other categories uses informal financial services, and this is also true for about one in every five adult SMEs, and those living in rural areas. At that time, the rates for usage of banking services in Ghana (34 per cent) were lower than in South Africa (60 per cent), Namibia (45 per cent), or Botswana (41 per cent), but higher than in Kenya, Nigeria, Uganda and other surveyed countries.

Table 12: Access to financial services in Ghana for different categories (in % of total adults)

Type of financial service provider	All adults	Urban areas	Rural areas	SMEs	Salary earners	Farmers
Formal financial institutions	40.7	60.6	26.5	44.6	82.3	22.5
– of which are banks	33.9	51.7	21.1	17.3	77.1	37.5
Other formal institutions	6.8	8.9	5.4	7.1	5.2	5.5
Informal finance	15.3	11.0	18.4	21.6	6.3	16.8
No use of financial services	**44.0**	**28.5**	**55.1**	**33.9**	**11.3**	**60.7**

The survey revealed further features about the use of financial services in Ghana:

- Services used in the informal sector are clearly oriented towards savings (46 per cent of the total) and remittances (37 per cent of the total).
- The use of banks is mostly linked with transactions on current (28 per cent) and savings accounts (25 per cent).
- The number of persons obtaining credit from the informal sector is higher than from the formal sector.
- The main drivers for, or motives of, savings among the rural populace are meeting household needs (60 per cent), education (37 per cent), emergency needs (36 per cent), business expansion (19 per cent), old age (14 per cent), and agriculture (13 per cent).
- The main drivers of borrowing in rural areas are meeting day-to-day expenses (33 per cent), education (22 per cent), business expansion (20 per cent), emergency needs (19 per cent), agriculture inputs (17 per cent), and business start-ups (9 per cent).
- The main access constraints of the unbanked persons interviewed were know-your-customer regulations (90 per cent)[72] and low income (64 per cent). Physical access (14 per cent), affordability (11 per cent), quality and range of services (5 per cent), and interest rates (4 per cent) played a limited or insignificant role here.

[72] Under these regulations, banks must request proof of identity and residence.

Credit. The main items financed by the banking sector (including the RCBs) were services (25.2 per cent), commerce and finance (15.9 per cent), manufacturing (12.4 per cent), and construction (9.2 per cent). Agricultural production received 4.7 per cent of total loans, a decrease of 1.2 per cent over 2011. It is believed that deficiencies in infrastructure (collateral registries), regulations (pertaining to debt recovery), and the judiciary (i.e. slow processes) generally inhibit the expansion of credit.

Interest rates. The consumer price inflation was just below 9 per cent in 2012, and it is expected to remain in the range of 8-9 per cent during the period 2013-2017 (EIU, 2013). Government policy is to contain the inflation rate below 10 per cent. The main instrument the Bank of Ghana uses to contain inflation is the Monetary Policy Rate, which is the rate at which banks borrow from the Central Bank as a last resort. This rate also serves as a benchmark for commercial banks in determining their own lending rates. The Monetary Policy Rate was increased four times since 2012, by a total of 2.5 percentage points, up to 16 per cent, indicating a strong commitment to contain inflation. The Bank of Ghana money market instruments for 3, 6, 12 and 24 months all had yield rates in the range of 22 23 per cent per annum, indicating that no premium is currently paid for longer term deposits. At the end of 2012, commercial banks themselves paid 3.4 per cent on demand deposits, 5.3 per cent on savings deposits, 14.5 per cent on 6-month fixed deposits, and 11.8 per cent on 24-month fixed deposits. The average cost of funds of the ten RCBs surveyed was in the range of 5.1-5.4 per cent during the period 2010 2013. Average lending rates of commercial banks was 25.7 per cent per annum by the end of 2012, which was about 2 percentage points less than one and two years earlier. The spread between deposit and lending rates narrowed to 13.3 percentage points at the end of 2012 compared with 18.9 percentage points at the end of 2011. RCBs often lend at rates much higher than those of commercial banks, often in the range of 36-48 per cent, and even higher at times if effective rates are calculated. Interest rates in the credit unions are mostly lower than these, and those in the formal microfinance sector are similar or higher.

Rural and community banks. RCBs[73] play a highly important role for the provision of financial services in Ghana. They serve about 4.2 million depositors, 0.9 million borrowers and account for 73 per cent of all deposit-taking counters in Ghana. By the end of 2012, the average numbers of depositors and borrowers

[73] For details on the establishment, evolution and state of RCBs up to 2008, see Nair and Fissha, 2010.

per RCB were 31,322 and 6,772, respectively. The average net worth over total assets has remained in the 12-14 per cent range in the past 13 years, indicating a comfortable capital adequacy position. In the past 12 years, annual average asset growth rates were never below 21 per cent, and were above 40 per cent in five of these years. As these rates are higher than those in the commercial banking sector, the share of RCBs in the total financial sector has slowly grown in recent years. With their spread over rural areas, where many of them are the sole formal financial service provider, and their accessibility in terms of minimum amounts for opening a bank account, RCBs have been the prime partners for many rural projects funded by development programmes in the last 20 to 30 years. The average balance sheet of the 133 reporting banks is presented in Table 19 (Annex 3.1).

However, there are also a number of deficiencies or weaknesses that have to be acknowledged:

- The average size, and thus capacity, of a RCB is rather low. Average total assets were GHS 11.5 million (≈US$6.0 million), loans outstanding were GHS 4.9 million (≈US$2.6 million), and equity funds GHS 1.4 (≈US$0.7 million).
- RCBs almost entirely depend on their deposit base. Their growth and ability to lend to their clients depend on their ability to attract deposits – on average GHS 8.9 million (≈US$4.7 million). Most of these deposits are very short term and are in current/salary accounts, which are brought to near zero by the end of the month, and in savings accounts.[74] The ability of RCBs to attract funds for over six months is very low, and reflects the clear preference for liquidity in the markets. This factor also considerably limits their ability to grant term loans above 12 months.
- The ability to intermediate loanable funds into actual loans has been limited, despite many years of substantial effort and investment. Up to 2005, total investments in bonds and bills were higher than in loans and advances. Risky lending was less profitable than safe investment in government bonds, given the high operating costs in lending and the high loan losses, which were not adequately balanced by the then prevailing lending rates. Buying treasury bills at 17-22 per cent yield rates at near-zero operating costs, for example, was more profitable than lending at rates that were about 40 per cent. In 2006, when the government reduced its deficits and borrowing from domestic markets, RCBs were suddenly faced with very low yield rates, which

[74] The average size of a deposit account was GHS 285 and that of an outstanding loan was GHS 720. Both increased by a factor of five over the past ten years.

forced them to engage much more strongly in lending. Since then, total loans have been greater than investments. The ratio of loans over assets has reached and exceeded 40 per cent, from 26-31 per cent in the previous years, and the average number of borrowers over the number of depositors per agency or branch has climbed to over 1,000. After an initial experimental phase of two to three years, when almost half of all assets were in loans, their exposure to lending declined thereafter in tandem with the increasing rates of treasury bills. From 2009-2012, loans, on average, accounted for about 42 per cent of total assets, much above the share of total investments of about 30 per cent.

- While the ability to grant and recover loans has improved, it is not yet at satisfactory levels. The share of non-performing loans in total loans outstanding declined gradually from about 20 per cent in 2001 to 9.5 per cent in 2012.[75] However, in the past five years, the non-performing loan rate has only declined by 0.7 percentage points, which is insignificant. Provisioning for loan losses accounted for 5.6 per cent of gross loans outstanding in 2012. Loan products, collateral policies, arrears management, and analysis of causes of arrears and loan losses appear to need improvement. Inadequate MIS impedes deeper analysis of the situation.
- The number of staff engaged in simple record-keeping activities is far too high and, consequently, staff productivity is too low. The entire network worked to improve efficiency in the early 2000s. In particular, there was an effort to reduce the waiting time for depositors and borrowers when making withdrawals or payments, but these improvements have not been actively pursued throughout the network. Efforts to measure time delays and identify the hidden waste in operating systems and procedures are not visible, and those to reduce paperwork and red tape have not been sufficient.
- The operating costs of RCBs also remain too high. Over the past three years, operating costs accounted for about 30 per cent of loans outstanding. This result compares with cost of funds of 5 per cent and loan loss provisions of 4 per cent, as shown in Table 13. Operating costs are the single most important domain through which RCB efficiency may be improved.
- With a few exceptions, efforts in streamlining products and procedures, investing in systems development and rationalization, developing consortium and lead finance approaches and products, understanding and financing value chains, or applying collateral substitutes have been below what is required to modernize the banks.

[75] This level compares with non-performing loans of 13.2 per cent in commercial banks.

- Rather than developing their own identity as a rural bank, RCBs have emulated the concept of commercial banks with the result that they are a downgraded, simplified version of these. Most RCBs struggle with the enormous paperwork required for the relatively high number of transactions on accounts. Neither shareholders nor apex bodies have initiated the substantial institutional and organizational reforms needed for RCBs to improve their efficiency and reduce their operating costs with a view to at least maintaining their current market position. New information technology systems and regulations on reporting are needed to facilitate such evolution.

Table 13: Cost structure of RCBs (2010-2012; amounts in GHS million)

	Amounts			In % of total loans			Average	
Period	2012	2011	2010	2012	2011	2010	2010-2012	In %
Loans outstanding	7.06	4.73	3.48	100	100	100	5.09	100
Operating cost/ loans	2.15	1.43	1.02	30	30	29	1.53	30
Cost of funds/loans	0.38	0.24	0.19	5	5	5	0.27	5
Loan loss provision/loans	0.32	0.16	0.14	5	3	4	0.21	4
Total costs/loans (%)	**40**	**39**	**39**	**40**	**38**	**38**		**39**

Source: Calculation by the authors on the basis of data of the monitoring unit of the ARB Apex Bank.

The evolution of the RCB network over the past 15 years is shown in Table 14.

Table 14: Evolution of RCBs in Ghana (1998-2012)

Description	Year						
	1998	1999	2000	2001	2002	2003	2004
Total number of agencies				228	317	400	425
Total number of RCBs	134	111	114	115	115	117	119
Total assets (GHS mn.)	15.7	18.52	31.66	51.82	86.38	127.54	179.86
Total deposits (GHS mn.)	10.96	13.76	23.65	38.13	66.7	94.92	136.33
Loans /Assets	4.84	5.65	9.8	14.49	22.56	34.84	56.77
Short-term investments (GHS mn.)			14.41	24.73	38.32	52.47	71.96
Net worth (GHS mn.)			4.52	7.33	10.77	12.04	24.09
Paid-up capital (GHS mn.)			0.68	0.96	1.41	2.23	3.52
Total profit before tax (GHS mn.)			1.52	3.63	3.75	6.78	7.74
Total number of depositors				1 129 316	1 187 366	1 456 987	1 720 731
Total number of borrowers				139,325	148,271	194,804	234,159
Non-performing loans (%)				19.81	15.92	14.65	10.43
Average number of depositors/RCB				9,820	10,325	12,453	14,460
Average number of borrowers/RCB				1,212	1,289	1,665	1,968
ST investments >loans			yes	yes	yes	yes	yes
Net worth/assets			14%	14%	12%	9%	13%
Loans/assets	31%	31%	31%	28%	26%	27%	32%
Borrowers/depositors				12%	12%	13%	14%
Borrowers/RCB agency				611	468	487	551
ST Investments /assets			46%	48%	44%	41%	40%
Deposits/assets	70%	74%	75%	74%	77%	74%	76%
Growth assets				64%	67%	48%	41%
Growth deposits				61%	75%	42%	44%
Growth loans				48%	56%	54%	63%
Growth ST investments				72%	55%	37%	37%
Average deposit value (GHS)				34	56	65	79
Average loan outstanding (GHS)				104	152	179	242

Source: Calculation of the authors based on ARB Apex Bank monitoring data.

Year							
2005	2006	2007	2008	2009	2010	2011	2012
460	463	455	494	509	568	613	624
121	122	125	126	131	133	132	133
226.08	298.75	385.96	466.99	626.38	875.82	1,156.66	1,524
168.8	226.46	293.23	346.48	460.16	682.16	910.42	1,186
77.52	115.1	172.12	225.34	262.84	333.69	471.71	649
83.06	84.63	105.21	110.46	198.84	283.90	336.58	442
32.09	38.43	48.33	62.38	84.05	104.84	136.14	189
5.41	9.35	11.35	17.33	22.85	28.48	36.90	45
9.2	8.87	12.69	15.76	23.79	26.74	36.39	62
2 182 559	2 493 004	2 670 618	2 827 023	3 065 147	3 386 674	3 766 175	4 165 889
280,280	358,092	590,161	680,663	739,843	784,233	830,824	900,685
12.29	11.34	11.18	10.2	10.26	9.31	9.84	9.51
18,038	20,434	21,365	22,437	23,398	25,464	28,532	31,322
2,316	2,935	4,721	5,402	5,648	5,896	6,294	6,772
yes	no	no	no	no	no	no	no
14%	13%	13%	13%	13%	12%	12%	12%
34%	39%	45%	48%	42%	38%	41%	43%
13%	14%	22%	24%	24%	23%	22%	22%
609	773	1,297	1,378	1,454	1,381	1,355	1,443
37%	28%	27%	24%	32%	32%	29%	29%
75%	76%	76%	74%	73%	78%	79%	78%
26%	32%	29%	21%	34%	40%	32%	32%
24%	34%	29%	18%	33%	48%	33%	30%
37%	48%	50%	31%	17%	27%	41%	37%
15%	2%	24%	5%	80%	43%	19%	31%
77	91	110	123	150	201	242	285
277	321	292	331	355	425	568	720

Annex 2: Matching grants in IFAD's Ghana portfolio

This annex presents the MG schemes of the two major ongoing programmes, jointly funded by IFAD and the Government of Ghana.

2.1 Root and Tuber Improvement and Marketing Programme

Predecessor project. Implemented in 1999-2005, the Root and Tuber Improvement Programme (RTIP) aimed to enhance food security and improve the income of resource-poor farmers by facilitating access to new but proven technologies to boost production of root and tuber crops. RTIP developed and tested improved planning material (mainly for cassava), a crop that was traditionally associated with smallholders (especially women), and it succeeded in creating a nationwide system for the multiplication and dissemination of planting material. The programme was instrumental in boosting yields and production, and it benefited 750,000 households. Building on the success and lessons learned from RTIP, the ongoing Root and Tuber Improvement and Marketing Programme (RTIMP) extends its focus to other roots and tubers and includes a processing and marketing component to strengthen the linkages between producers and consumers, and to boost poor farmers' incomes. At mid-term, the programme had initiated production activities in 72 districts, and value-chain activities in 56 districts, with the following results:

- 40,000 smallholder farmers have received planting material for cassava and yams;
- 75 farmers' field forums have been set up to promote self-learning and the participatory development of technologies;
- 2,800 farmers have participated in farmers' field forums activities; and
- 1,000 beneficiaries have been trained in business development.

RTIMP has a number of objectives: (i) crop production: continuation of interventions initiated under the RTIP aimed at fostering the sustainable enhancement of growers of root and tuber crops; (ii) processing, trading/marketing: promotion of more efficient practices and efficient processing, business management training and MGs to access capital through a microenterprise fund; (iii) commodity chain integration: pilot activities aimed at eliminating bottlenecks/blockages that prevent the expression of a "pull" factor for increased crop production and/or a better balance of supply and demand for root and tuber produce and products; and (iv) grass-roots empowerment: institution-building, including the creation of an apex body with a knowledge centre.

Target groups are economically active individuals, groups and companies engaged in agroprocessing and marketing of root and tuber crops who are contributing to commodity chain strengthening. Entrepreneurs should be poor with a poor asset base (indicated, for example, by their means of transport and household appliances) and have low levels of education (i.e. they should be illiterate or possess only primary education). The RTIMP became effective in November 2006 and will be closed in June 2015. Total costs have been calculated at US$29 million, of which approximately US$0.6 million is deemed necessary for the MG scheme.[76] Its three technical components, apart from programme coordination and M&E under the programme coordinating office (PCO), are:

- **Component A:** Support to increased commodity chain linkages involving building competitive, market-driven and inclusive root and tuber commodity chains supported by effective and sustainable delivery mechanisms of services that are easily accessible by the rural poor through four subcomponents: (i) information, education and communication; (ii) linking small producers and processors to larger scale markets; (iii) strengthening of organizations of root and tuber farmers, processors and traders; and (iv) supporting root and tuber commodity chain integration and policy dialogue.
- **Component B:** Support to root and tuber production comprising five subcomponents: (i) agricultural research; (ii) planting material multiplication and distribution; (iii) improved root and tuber cultivation systems; (iv) integrated pest and disease management; and (v) soil fertility management.
- **Component C:** Upgrading of small-scale root and tuber processing, business and marketing skills, comprising four subcomponents: (i) identification and promotion of root and tuber technologies; (ii) good practices centres; (iii) business development training; and (iv) a microenterprise fund, which finances part of the market price of equipment and other investments through MGs for the poor within value chains.

Microenterprise fund. The ARB Apex Bank, on behalf of the PCO, has accepted responsibility for implementing the microenterprise fund. The MG-credit activities under the microenterprise fund are implemented by PFIs accredited by the ARB Apex Bank in accordance with specific criteria closely related to compliance with prudent regulation. The MG credits operate in accordance with the following criteria: (i) presentation of a bankable proposal for an investment related to root and tuber crops by an applicant to an accredited PFI; (ii) principle approval of the application by a PFI on its own terms and conditions, and risks, covering 60 per cent of the proposed investment amount; (iii) an equity contribution by the proponent of

[76] Amount estimated by the authors.

10 per cent of the investment amount; (iv) approval of the grant in the amount of 30 per cent of the investment costs by the PCO, the Bank of Ghana, and ARB Apex Bank; and (v) procurement of the main investment goods – mostly innovative equipment needed for cassava processing – by the PCO.[77] Applicants should not have been in default with any loan from a financial institution and should be willing to undergo training in group dynamics, finance and business management, sponsored by RTIMP. Groups should have a membership between 5 and 25, operate from an identifiable location, have at least three officers, and agree to be jointly and severally liable for external debts incurred. The initial equity-grant-loan formula was 10:40:50, but it was later adjusted to the REP II formula of 10:30:60. Ceilings for MGs are set at US$400 per individual in a group to US$12,000 for growth-oriented enterprises based on bankable business plans.

Bank autonomy. While predecessor programmes had prescribed interest rates of 15 per cent per annum, against market rates of 42 per cent, which turned out to be a market distortion, the RTIMP approach left the decisions on terms and conditions entirely to the banks. These changes are remarkable against a background of many years of cheap loans, grant support combined with loans, and similar support provided under multilateral projects linked with government. It was generally understood that these loans would not have to be paid back, as the support was seen as a debt obligation by the government vis-à-vis its rural population. RCBs, which had often participated in a number of schemes in the past decades, had been reluctant to participate in the REP II and/or the RTIMP, fearing that loan repayments would be as low as in the past.

Procedures for MGs. When the potential investor was aware of the facility, he or she could obtain support from the district BACs to prepare bankable loan applications to PFIs; the costs were supported under the RTIMP. Upon receipt of a loan application from a potential investor into root and tuber crops, PFIs checked compliance with their own terms and conditions, and autonomously decided whether to approve a loan in principle. If the bank assumed that the investment might be eligible for an MG, the bank would submit, upon preliminary approval of a loan, an application for an MG to the ARB Apex Bank on behalf of the beneficiary. For this purpose, the ARB Apex Bank had entered into agreements with each accredited PFI for the implementation of the MG-credit activities. Decisions on the grant needed to be endorsed by district committees specifically set up for the purpose, which were comprised of district directors of agriculture, RTIMP staff, agricultural extension officers, bank representatives and the head of the district BAC. The mandate of the ARB Apex Bank included a plausibility check of main loan parameters and a full compliance check of the application with the regulations. Both ARB Apex Bank and PFIs were requested to submit periodic reports to RTIMP on their performance with

[77] To the extent possible, payments by PFIs were to be made directly to suppliers.

respect to disbursements and recoveries. The overall responsibility for the monitoring of the activities of ARB Apex Bank, PFIs and beneficiaries lay with RTIMP project management. Upon approval, the ARB Apex Bank was requested to notify the PCO of the RTIMP of the grant amount and to initiate the disbursement procedure. RTIMP management then sent the approved files to the IFAD country office for no objection.[78] Upon receipt of the no objection clause from IFAD, the RTIMP office instructed the ARB Apex Bank to disburse funds to the concerned RCB and to inform the Bank of Ghana, accordingly. With approval from the Bank of Ghana, the ARB Apex Bank then disbursed funds to the RCB. Upon receipt of the amount, the PFI disbursed the loan to the borrower and used the entire funds (loan, equity contribution and MG) to pay suppliers directly, thus avoiding direct disbursements into the account of the borrower. In cases where the bank had already disbursed the loan to the client before MG approval, it would either redo the loan agreement by reducing the loan amount and charging interest on the MG amount only for the respective period, or it would keep the MG amount in trust for the borrower until full repayment of the entire loan.

Developed only from the bureaucratic/administrative side, this system was not efficient. Unfortunately, none of the actors had any incentive to process an application without delay. On the contrary, it was advantageous for financial institutions (Bank of Ghana, ARB Apex Bank and PFIs) not to process applications too quickly, as they received liquidity without costs. In addition, the length of processing was not measured, was not debated between actors and had gone almost unnoticed, except for the borrowers who incurred additional costs. As some beneficiaries noted, delays in processing may have resulted in an increase of the cost of equipment, resulting in complicated negotiations with the bank to increase the loan amount, and with the project staff to increase the grant amount, accordingly.

2.2 Rural Enterprises Project – Phase II

Background. The Rural Enterprises Project – Phase Two (REP II) became effective on 19 June 2003 and was closed on 31 December 2012. It was built on the first phase of the project implemented between 1995 and 2002 in 13 districts in Ashanti and Brong Ahafo regions. The project was implemented in 66 districts (53 new and 13 from REP I) in the 10 regions of Ghana. The overall goal of REP II was to contribute to alleviate poverty and improve living conditions in the rural areas, and especially to increase the incomes of women and vulnerable groups through increased self- and wage employment in Ghana. The immediate project objective was to contribute to the development of competitive rural MSEs in participating districts backed by good quality, relevant and sustainable support services. This objective was to be achieved

[78] In the meantime, the no objection threshold has been set for all grant amounts over GHS 5,000, which applies to almost all cases. Under REP II, a no objection of grants is not required given that the amounts are relatively small and the number of applications is quite large. Other MG schemes, such as the World Bank and Global Environment Facility-funded programme to support solar panel use, is managed by two staff specifically recruited to handle all procedures, which has resulted in much faster processing.

through: (i) creation of a more enabling environment for MSEs; (ii) stimulation of establishment and expansion of rural MSEs; (iii) enhancement of quality, design and packaging of rural MSE goods and services; (iv) improvement in the marketing of rural MSE products; (v) increased access of rural MSEs to working capital and investment funds; and (vi) empowerment of trade associations and client organizations.

The REP II design involved four interrelated technical components and one non-technical component as follows:

- business development services through establishment and operation of BACs in each participating district assembly;
- technology promotion and support to apprentices' training through establishment of RTFs in selected districts;
- rural financial services through continuation of the REP I REDF;
- support to MSE organizations and partnership-building (institutional support); and,
- project management and coordination.

The key outcome targets for the project are listed in Table 15.

Table 15: Summary of REP II outcome performance

Performance indicators	Appraisal target	Revised target	Actual 2003-December 2012			Achieved (in % of revised targets)
			Men	Women	Total	
New businesses established	40 000	25 000	9 919	15 220	25 139	101
Number of wage jobs created[a]	90 000	75 000	20 561	32 962	53 523	71
MSEs linked to larger commercial operations and enterprises[b]	10 000	6 250	4 337	8 366	12 703	203
Clients operating active bank accounts	15 000	15 000	12 467	18 113	30 580	204

[a] The target was reduced from 110,000 in the REP II Appraisal Report to 90,000 in the African Development Bank Appraisal Report, and to 75,000 at MTR.

[b] Targeted to be 25 per cent of new businesses established.

Source: REP II PCMU Database, 2012.

Implementing agencies. The executing agency of REP II changed during project implementation. The Ministry of Trade and Industry was in charge during most of the project implementation period, from 2006-2012. The main project implementing agencies for REP II were the district assemblies, the National Board for Small-Scale Industries, GRATIS Foundation, the ARB Apex Bank and some NGOs. The project supported the National Board for Small-Scale Industries to establish the BACs in the project districts for the implementation of the business development services component. Similarly, the GRATIS Foundation was supported to provide technical supervision and guidance to the RTFs during project implementation. The rural financial services component was implemented through qualified and accredited PFIs. The participating district assemblies had responsibility for the coordination of development activities, and provided strategic guidance and budgetary support to the BACs and to the RTFs at the district level. A number of NGOs also supported the implementation of REP II, especially in the delivery of training and financial services.

Targeting. Project interventions targeted the entrepreneurial poor. The project was implemented on a demand-driven basis starting with a competitive enrollment process for the participating districts and the delivery of project services within the participating districts. Efforts were made to include vulnerable groups such as disadvantaged women, unemployed youth and graduate apprentices who lacked the capital or acumen to start their own businesses. During the first five years, REP II focused on establishing new enterprises, but after the MTR the focus shifted beyond the inception and survival of these enterprises to consolidating and supporting their growth.

The rural finance component. REP II had initially created the REDF, a wholesale credit fund, through the Bank of Ghana for accredited PFIs to conduct onlending at their own risk to target MSEs. The REDF was administered by the ARB Apex Bank. However, the REDF performed below expectations. At mid-term (2008), only 1,293 MSEs had received loans under the facility, against an appraisal target of 30,000 for the entire project period. Only 30 PFIs had been enrolled in the project, against a target of 106, and the loan recovery rate was only 78 per cent. The MTR identified a number of factors underlying this weak performance:

- weaknesses of PFIs in establishing realistic loan repayment schedules based on cash flow assessments;
- inadequate loan monitoring and borrower supervision;
- high staff turnover at participating rural banks; and
- loan ceilings of US$1,000 for investment and US$350 for working capital were deemed to be too low.

The MTR recommended converting the remaining REDF resources into an MGF in order to capitalize on the project's clients having received training, and in order to enable them to purchase basic production and processing equipment needed to establish, operate and grow their own businesses. The MGF was expected to help support the high-performing and growth-oriented MSEs to upgrade their production and processing equipment for business expansion and employment generation so as to increase incomes. The MGF agreed to finance 30 per cent of the costs of production and processing equipment, if the client mobilized a minimum equity contribution of 10 per cent and a PFI agreed to finance the remaining 60 per cent.

Key selection and eligibility criteria for application. The target clients were poor rural entrepreneurs engaged in non-farm rural MSEs employing not more than ten persons and having assets below US$3,000. The applicants had to comply with the following conditions:

- They had to be clients of a BAC having received training in small business management, saving and banking culture, and credit management (or equivalent training received from other providers).
- They had to be individuals or solidarity groups with 5 to 20 members.
- They had to be screened and endorsed by a BAC to certify that they were clients with a viable business proposition.
- They had to have had an active account with a bank for more than six months or be prepared to open and operate a bank account for at least six months.
- They had to provide adequate evidence or assurance that its required contribution of a minimum of 10 per cent equity would be available at an agreed time before loan disbursement.
- They had to be willing to undergo training in savings and banking culture, credit management, group dynamics and business management, etc., to be sponsored by REP II.
- They could not be in default with any financial institution.
- A bank had to be willing to finance 60 per cent of the investment amount.

Grant ceilings were applied depending on the levels of enterprise development. MG ceilings were US$150 for MSEs in the start-up stage (maximum project size, US$500), US$300 for MSEs at survival stage (US$1,000 total project size) and US$900 for MSEs at the high-performing and growth stage (up to US$3,000 project size).

Institutional set-up and procedures. MSEs that had received training by BACs could apply directly to any accredited PFI for the MG and loan. The PFIs were expected to liaise with the BAC and RTF to obtain additional information on the client, including training received, identified technical needs and difficulties, and expected incremental

income and cash flow after the investment. In addition to this information, the PFIs were expected to conduct their own due diligence to ensure viability of the investment and ability to repay the 60 per cent bank loan component. Loan duration, repayment frequency, interest rates and collateral requirements were determined by the PFIs. Once a request was approved by a PFI, it needed to be reviewed by a MGF committee at the district level composed of the supervising manager of the PFI, the head of the BAC and the REP II zonal coordinator. The PFI then submitted the MG-endorsed disbursement application form to ARB Apex Bank for final approval and disbursement. Once approved, ARB Apex Bank informed the REP II project coordinator about the names of clients, the number and the value of approved applications for the MGs in order to solicit release of funds. After review, the REP II project coordinator approved the disbursement of funds accordingly into the REP II MGF account with ARB Apex Bank. In order to ensure proper implementation of the MG fund, the PMU was supposed to undertake periodic evaluations of the performance of PFIs in appraising client applications.

Eligible PFIs. In order to ensure broad participation and to reach the largest number of MSEs, a range of financial institutions were eligible to participate, subject to meeting certain accreditation criteria, including commercial banks, RCBs, credit unions and financial NGOs. In addition to the necessary licences and registrations, accreditation criteria for banks included a portfolio at risk of no more than 20 per cent at each participating branch, operational self-sufficiency above 100 per cent, audited financial statements of the most recent two years, and adequate provisions for bad and doubtful accounts that were satisfactory to the Bank of Ghana.

The operational manual for the MGF had made monthly reporting by PFIs to the Apex Bank compulsory, with details on the following data:

- name and type of PFI;
- number of MGF and PFI loan applications received, declined and approved;
- number of members of group MGF and PFI loans approved (indicating men and women);
- number of individual MGF and PFI loans approved;
- number of individual loans fully repaid on time;
- number of group loans fully repaid;
- average turnaround time for approved MGF and PFI loans (the number of days between receipt of the loan application and disbursement);
- total principal loan amount component for individual loans;
- total principal loan amount component for group loans;
- outstanding principal loan component balance;
- principal balance of overdue loans component (which are overdue more than 30 days);

- total repayments (principal plus interest);
- total amount due (principal plus interest);
- value of MGF request applications from PFI to Apex Bank; and
- value of MGF disbursements from Apex Bank to PFI.

Despite these ambitious reporting requirements, the study team could not retrieve consistent data on key indicators such as the total number of grants and loans disbursed, data that would enable the calculation of repayment rates, and information on non-performing loan portfolios during project implementation or at closure.

Implementation performance. The MGF was established in July 2008. Between 2008 and 2010, the use of the MGF was very limited. In December 2009, a supervision mission identified liquidity constraints and lack of longer-term funds as the primary reasons for the reluctance of PFIs to use the facility. PFIs had been reluctant to use their own funds for three reasons:[79]

- Liquidity constraints (especially in those RCBs that have been most aggressive in expanding their loan portfolios).
- Lack of longer-term funds to match the loan periods of two to three years required for larger loans for equipment upgrading and expansion.
- Risk of default, which is considered high for clients who are seeking loans but are not already clients of the PFIs, so do not have a track record; PFIs want to see at least six months of operations of a business account before a loan decision can be made. Past poor performance by borrowers put forward by government projects deters them from lending based on project recommendations, unless the government is bearing the risk.

It was agreed that 60 per cent of these funds would be made available as a term line of credit.[80] In January 2010, the REDF was recapitalized by GHS 1 million to be used as a refinance facility for medium-term loans (19 to 36 months) as well as short-term loans (up to 18 months) for MSEs at the survival stage. The REDF was managed by the Bank of Ghana and would finance 80 per cent of the PFI loans. Eligible PFIs included RCBs, credit unions and financial NGOs. The REDF funds were to be released based on a list of recently approved loans for eligible beneficiaries and purposes.

[79] These problems have also affected utilization of the RTIMP Microenterprise Fund, as the size of investment needed for some of the processing equipment requires longer-term financing. While the PMU has successfully linked some PFIs to existing finance facilities, others did not qualify. The ability to refinance term loans (at least up to 80 per cent, as under REDF) would likely increase the take-up of matching grants by some of the PFIs.

[80] Of the duration of 2-3 years, for retail loans of 19-36 months to refinance up to 80 per cent of the loan amount in combination with MGs for 30 per cent of the investment cost (which could come from the RTIMP or NRGP, as well as the REP II); 20 per cent for shorter-term loans (18 months or less), mainly for working capital for smaller start-ups and survivalist enterprises; leaving 20 per cent as MG funds for firms eligible under REP II.

Overall, REP II experienced major challenges in meeting its output targets for access to working and investment capital by its clients. The situation improved from 2010 after an initiative by project management to get the BACs working more closely with the PFIs to develop the required business records to support the credit applications, to assist the clients to provide more complete applications and to introduce the client personally to the bank staff. In addition, REP II provided a limited number of start-up kits to graduate apprentices who demonstrated commitment to provide the required counterpart funding, mostly in kind, as tools or as permanent workstations. The start-up kits led to the creation of MSEs by an estimated 60-65 per cent of the graduate apprentices (see Table 16).

Table 16: Key performance indicators of the REP II

Performance indicators	Unit	Revised targets (REP II)	Actual 2003–December 2012			% Achieved
			Gender analysis			
			Men	Female	Total	
Number of clients trained (skills, business management and marketing)	Clients	70 000	41 297	75 552	116 849	167
Number of rural technology facilities set up and operating	RTFs	21	14			67
Number of rural master craftworkers supported	Craftworkers	5 000	4 423	460	4 883	98
Number of apprentices trained and installed	Apprentices	6 000	7 688	8 026	15 714	262
Number of PFIs enrolled	PFIs	106	40			38
Number of outlets of enrolled PFIs	PFI outlets		92			
Number of staff of PFIs trained	PFI staff	106	555	53	608	574
Number of MSE operators receiving REDF loans	Clients		2 355	4 899	7 254	-
Number of MSE operators receiving non-REDF loans	Clients		243	555	798	
Number of MSE operators receiving MGF loans	Clients		230	247	477	
Number of MSE operators receiving loans	Clients	15 000	2 828	5 701	8 529	57
Amount of REDF credit funds disbursed to MSEs	GHS		3 760 358			-
Amount of non-REDF credit funds disbursed to MSEs	GHS		508 369			
Amount of MGF credit funds disbursed to MSEs	GHS		1 432 012			
Amount of credit funds disbursed to MSEs	GHS	2 000 000	5 700 738			285

Source: REP II monitoring data.

Annex 3: Methodology

3.1 Methodology

The study concentrates on the impacts of MGs on MSEs and their financiers. These MSEs have been supported with MGs and capacity development, and other support measures under the REP II and the RTIMP.

Sampling approaches. Sample size was set at 100 grant recipients from both programmes to provide a sufficiently comprehensive overview.[81] This number represented about one quarter of the total 414 MGs provided between the two programmes at the end of December 2012 (REP II: 358; RTIMP: 56).

The first selection was made from grant recipients that had made their investments at least one year prior to the study, which was considered to be the minimum requirement needed to observe any impacts of the investments. No threshold was set as regards the time that had elapsed since the investment was made. Given the respective start dates of the projects, the sample includes investments made during 2009 and 2012. Interviews were divided between beneficiaries in those regions where most of the grants had been disbursed by the projects (i.e. Ashanti, Brong Ahafo and the Western/Central regions) and all remaining regions to a lesser extent. This regional distribution allowed for a broad coverage of all regions with their differences and disparities while giving sufficient weight to those regions more extensively supported. Given the larger number of MGs disbursed by the REP II, it was the decided to select about 25-30 MSEs from among the RTIMP beneficiaries, or about half of all recipients, and the remaining ones from the list of REP II beneficiaries, which represented about one fifth of all MG recipients under REP II. Table 17 shows the regional distribution of interviews by district and programme.

[81] Data revealed that only 99 interviews had sufficient valid responses to be used for the analysis.

Table 17: Distribution of field interviews by districts

Region	PFIs	RTIMP	REP II	Total for REP II and RTIMP
Ashanti	4	18	8	26
Brong Ahafo	1	9	4	13
Western/Central	2	4	19	23
Eastern	0	0	0	0
Volta	1	0	11	11
Upper East	1	0	13	13
Upper West	1	0	7	7
North	0	0	7	7
Total	**10**	**31**	**69**	**100**

The final selection of interviewees was made by the consultant team conducting most of the interviews in the field on the basis of the list of beneficiaries provided by the two projects, with key parameters such as purpose, size of the investment, financing structure, disbursement date, repayment schedule, location and contact information on beneficiaries.[82]

On the side of the REP II clients, emphasis was placed on selecting clients with projects related to agricultural purposes, in view of the main interest of IFAD and FAO in the agricultural sector. This preselection criterion limited the number of potential REP II interviewees. Interviews were balanced among individuals, groups/cooperatives and companies; between women and men; and within a given district, though field travel was kept within reasonable limits. Because of the differences between REP II and RTIMP, several other variables were taken into account:

- REP II investments stretched over nine of the ten regions in Ghana, while RTIMP covered five regions, four of which are concentrated in the forest zone in the south.
- REP II investments covered a wide range of productive ventures and income-generating activities, including hairdressing, bee-keeping and "kente" weaving, while RTIMP focused on productive ventures in the agricultural value chain, notably the production and processing of cassava.

[82] Apart from the results contained in the database on the nature and type of investment, loan and MG details, and contacts of the grantee, no other information was available to the interviewers prior to the selection of the interviewee. The enumerators made no effort to get impact-related information, nor did the staff of the two programmes influence the selection of interviewees.

- Priority was given to projects involving productive ventures in agricultural value chains, most of which fell under RTIMP, by default.
- REP II grant recipients were mainly individuals because the target group was microenterprises; RTIMP had a fair representation of individuals, groups and enterprises.
- The loan size/investment amounts under RTIMP were generally larger than those of REP II.
- Four of the ten regions (i.e. Northern, Upper West and Upper East regions making up the northern part of the country, as well as the Central region in the south) are the poorest parts of the country where an average of 30 per cent of individuals and households live below the poverty line.

Based on the above variables, the whole country was mapped into four zones to facilitate two levels of sampling.

- Stratified sampling: each zone was fairly represented in an initial sample drawn using the principle of stratified sampling. Heavier weight was given to regions with larger numbers of grant recipients and higher investment amounts. Zoning also helped in planning for logistics and a travel itinerary.
- Random sampling: a smaller sample was then drawn from each zone to get a number that fairly represented the zone, taking into account all other variables at play.

Under both the REP II and RTIMP, 21 banks had been accredited and have actually lent to MG clients, among them one commercial bank and 20 RCBs. Of these 21 PFIs, 11 banks financed REP II clients only, 7 financed RTIMP clients only, while 3 banks served clients from both programmes. It was then decided to interview ten banks, representing almost half of all PFIs. The list of PFIs interviewed is presented in Table 18. PFI interviewees were selected from the three banks serving clients under both programmes, plus a selection of the most active ones. As the one commercial bank participating in the scheme had just disbursed its first loan, and had little experience with the MG scheme, this bank was dropped from the list of interviewees. All ten interviewed banks were, therefore, RCBs.

Table 18: List of participating financial institutions interviewed

Participating financial institution	Project	Interview status
Amansie West Rural Bank	REP II	Interviewed
Amantin and Kasei Community Bank	REP II and RTIMP	Interviewed
Asutifi Rural Bank	REP II	
Badjease Area Rural Bank	REP II	
Baduman Rural Bank	REP II	
East Mamprusi Community Bank	REP II	
Ecobank	RTIMP	
Kwabre Rural Bank	RTIMP	
Kwamanman Rural Bank	RTIMP	Interviewed
Mepe Area Rural Bank	REP II	
Mfantseman Community Bank	RTIMP	Interviewed
Naara Rural Bank	REP II and RTIMP	Interviewed
Nkoranza-Kwabre Rural Bank	RTIMP	Interviewed
North Tongu/Amuga Rural Bank	REP II	Interviewed
Odotobiri Rural Bank	RTIMP	
Okomfo Anokye Rural Bank	RTIMP and REP II	Interviewed
Otuasekan Rural Bank	RTIMP	
Sekyere Rural Bank	REP II	
Sissala Rural Bank	REP II	Interviewed
South Akim Rural Bank	REP II	
Upper Amenfi Rural Bank	REP II	Interviewed

Representation of interviewed PFIs. In the case of the ten RCBs interviewed, their performance, size and structure were compared with all RCBs in Ghana. The average 2012 balance sheet of all RCBs in Ghana (133) was compared with that of the 10 banks selected for interview (see Table 19 and Table 20). Both groups of banks show a very similar structure of liabilities and equity, with almost identical proportions of the main balance sheet items. Total assets of the interviewed banks were larger by GHS 2.9 million, most of which was derived from a larger deposit base (+GHS 2.4 million). The ten RCBs interviewed also had fewer resources in cash than other banks (-3 percentage points) and fewer resources in treasury bills (-4 percentage points), which led to a higher share of resources invested in loans (+7 percentage points). Loans outstanding were higher by GHS 2.3 million.

Capital adequacy was a bit higher for all banks than for the interviewed ones (15.9 per cent compared with 14.4 per cent). However, the average profit in 2012 was a bit higher on average for the interviewed banks (GHS 0.6 million) against the overall average of GHS 0.47 million. Return on assets was quite similar: 4.1 per cent for all RCBs and 4.2 per cent for the ten banks surveyed. The internal performance classification of the ARB Apex Bank[83] showed an average score of 22.8 for all 133 banks, whereas the ten interviewed banks had an average score of 21.6.[84] The ten RCBs interviewed seemed a representative sample of all RCBs, given the similarities between the two sample groups and insignificant variation between them.

Table 19: Average balance sheet of 133 RCBs (December 2012)

Assets	Amount	In % of total	Liabilities and equity	Amount	In % of total
Cash and banks	1.52	13	Deposits	8.91	78
ST investments	3.32	29	Other liabilities	1.13	10
Loans	4.88	43	Capital	0.34	3
Long-term investments	0.15	1	Net worth	1.42	12
Other assets	1.74	15			
Total assets	11.46	100	Total	11.46	100

Table 20: Average balance sheet of 10 RCBs interviewed (December 2012)

Assets	Amount	In % of total	Liabilities and equity	Amount	In % of total
Cash and banks	1.44	10	Deposits	11.27	79
ST investments	3.51	24	Other liabilities	1.51	11
Loans	7.14	50	Capital	0.27	2
Long-term investments	0.07	0	Net worth	1.56	11
Other assets	2.19	15			
Total assets	14.34	100	Total	14.34	100

[83] The rating for 2012 classified 9 per cent of the 133 RCBs as strong, 63 per cent as satisfactory, 23 per cent as fair, 3 per cent as marginal and 2 per cent as unsatisfactory, against 80 per cent classified as satisfactory and 20 per cent as fair in the groups of interviewed RCBs. *Source*: Calculations by the authors on the basis of the raw data contributed by the Efficiency Monitoring Unit of the ARB Apex Bank.

[84] The lower the score, the better the rating. In 2012, the best bank scored 13 points; the worst, 46.

Developing survey instruments. On the basis of the project design documents, a number of key dimensions were distilled. These include the justification of the respective subsidies and impact-related issues:

- the impact the grants had on the enterprises in terms of employment creation, turnover, profits realized, etc.;
- whether the MSE would have undertaken the project without the MG;
- the extent to which the financial services offered by the selected bank were appropriate;
- the extent to which the entrepreneurs created reserve funds for the replenishment, operation and maintenance of the equipment purchased; and
- the extent to which the MSE would have gained access to finance, and would be interested to borrow again, from this or other financial institutions.

While most impact assessments concentrate on the ultimate beneficiaries, it was the intention of this survey to cover the financial intermediary as well. The main issues addressed in the bank survey were:

- the relative importance of MGs in the lending activities of the banks;
- the performance of the loans disbursed to the MG recipients in comparison with other types of loans;
- improvements of practices that can be associated with the exposure of the banks to the target groups supported by the respective projects; and
- the willingness of banks to provide loans to such MSEs and such investment projects in the future.

On the basis of a few test interviews conducted during a field visit in April 2013, an initial list of questions related to the above was developed. During a second mission that took place in May to June 2013, two draft questionnaires were then elaborated on the basis of the list of issues and questions. These were then tested in the field and revised several times.[85] At these pilot-testing interviews, one representative of the REP II or the RTIMP were present, and one staff of the REP III also conducted one interview.[86] The initial expectation to obtain solid enterprise data on turnover, costs and net results over several years was found to be unrealistic, given the practical limitations and constraints explained in Chapter 1.

[85] During this testing of the survey instruments, 4 banks and 15 beneficiaries were interviewed in pairs comprised of the four team members.

[86] Interviews were conducted by Mr Abdulai Ishiau under the supervision of one senior team member. The final versions of these questionnaires are presented in Annex 3.2.

In addition, data on repayment performance and investments financed were also obtained from seven RCBs that were able and willing to retrieve the respective client data from their MIS.

Field interviews. The remaining field interviews were then conducted by the team of consultants, comprised of Sebastian Deh (lead consultant/enumerator), Raymond Acolatse (consultant/enumerator) and Morrison Stephens (research officer/enumerator) during the period between 31 May 2013 and 12 July 2013. While conducting the interviews using the formal, standardized questionnaires, all interviewers also kept records on important and interesting issues and results of the projects, MGs and enterprises, collecting both qualitative and quantitative data. Many of these observations and discussions were summarized in narrative case studies.

Planning for daily field trips ensured that appointments were confirmed in good time. This confirmation was done by mobile phone and with the support of the local BAC officers where phone service was not available. Often, officials of RTIMP, BAC or REP accompanied the interview team, but their involvement was limited to assistance in locating projects and individual grantees. In the field, enumerators worked as a team under the guidance of the lead consultant. Lessons learned during the pilot testing were fully applied. In administering the questionnaires, the enumerators worked both as a team and as individuals, capturing all relevant data professionally and with as much detail as possible.

Owing to varying levels of numeracy of respondents and the level of sophistication of each investment, information collected was generally qualitative. Records were demanded in support of information given, and data were verified for accuracy and reliability through spot checks. As much as time allowed, each day's interview work ended in a collation and debriefing with the team leader, sharing lessons and synchronizing thoughts and ideas to ensure that quality improved day after day.

All questions administered on grant recipients and PFIs were all entered in a synthesis table that was used for further analysis. This table fed into preparation of the analysis and the final report.

These approaches allowed the interview team to cover over 80 per cent of the targeted respondents through initial sampling. Owing to last-minute changes by respondents, there were a few substitutions to reach the desired sample size.

In the case of PFIs, one RCB in the Eastern region was substituted for another in Brong Ahafo; and in the case of grant beneficiaries, seven recipients under RTIMP had to be substituted by an equal number under REP. Substitutions were made by randomly selecting grantees on the lists provided by the respective programmes that had similar investments and were within reasonable distance from the one dropped.

The following constraints were identified as potentially introducing some level of error in judgement and, by extension, in the results of the survey:

- Inability of clients to meet enumerators: Though adequate planning was made for field trips, there were some last-minute changes on the side of interviewees; consequently, it was not possible to visit all grantees targeted as per initial sampling approach.
- Non-availability of supporting records: Information collected was generally qualitative. In some cases (RTIMP: 5; REP: 12), authentic records were not available to validate information given by respondents.
- Non-availability of key informants: In some cases (RTIMP: 4; REP: 3), the key informant was not available, which affected retrieval and verification of records to validate the claims of respondents.
- Withholding relevant information: There is a persistent and widely held notion that anyone seeking information from grantees has audit motives and, as a result, some respondents tended to hold back key information.

These constraints were obviated by relying on the consultants' competence and their experience of the targeted respondents. Additionally, reconciling with the respective PMU and PFI authenticated all information collected. Generally, careful analysis showed that the information offered by PFIs turned out to be the most credible and was relied on whenever there was doubt.

Data analysis and preparation of report. The team of consultants and enumerators in the field performed data entry and FAO performed data cleaning, data analysis and drafting of the statistical results. Several methods were applied to cross-check results and the accuracy of data entry and analysis. Missing values emerged in the following cases: (i) non-availability of data during the field interviews, which could not be completed afterwards through follow-up phone calls; (ii) unwillingness of respondents to provide known data for fear of being taxed; and (iii) changes in the questionnaires during the pilot testing phase, implying that the added or deleted questions were not provided by all respondents.

This empirical study therefore comprises:

- a survey of 99 MG beneficiaries (REP: 76 per cent; RTIMP: 24 per cent); and
- a survey of ten banks financing the larger part of the investment.

In addition, seven banks were able to provide statistical data on 190 MG clients from their MIS on loans, investments, repayment performance, approval delays, and continuity of borrowing of clients after the MG loan.

The study applies both qualitative and quantitative methods. Qualitative approaches were used to attain a comprehensive picture of issues, constraints and opportunities. These approaches included elaborate discussions with borrowers, the staff of projects offering MGs, financial institutions, district authorities and donor agencies on the use and impacts of MGs, the environment in which they are applied, the conditions under which MSEs operate, and the appropriateness of the different financial instruments used. In many cases, they reveal the underlying causes of the results found through quantitative methods.

3.2 Survey instruments used

Impact Assessment of Matching Grant Schemes in Ghana **Interview No.:**

Joint FAO/IFAD initiative **Questionnaire for Financial Institutions** (version 11)

Date of interview (dd|mm|yyyy): | |2013 | Time of interview:

Name of bank:	Location/district:
Interviewee name:	Interviewee position:
IFAD-Project:	Interviewee mobile phone no.
Email address for follow-up:	

Introduction by interviewer

The overall objective of our assessment is to review the impact of MG schemes in order to draw conclusions as regards the usefulness of the instrument, and to improve any future schemes. We are in the process of reviewing several schemes in Ghana, with our main focus on those financed by IFAD. We would, therefore, appreciate your frank and honest responses and recommendations.

We want to start with a few data on your bank which we need to improve our understanding of it.

Item	As at 31.12.2012	As at 31.12.2011	As at 31.12.2010
Total assets	1.	2.	3.
Total loans outstanding	4.	5.	6.
Deposit liabilities	7.	8.	9.
Amount of deposit liabilities above 12 months	10.	11.	12.
Amount of medium-/long-term loan liabilities (>12 months)	13.	14.	15.
Total equity/shareholder funds	16.	17.	18.
Total operating costs including depreciation	19.	20.	21.
Cost of capital (interest expense for external loans received and deposits)	22.	23.	24.
Total loan loss provisions for the year	25.	26.	27.
Number of depositors	28.		
Number of active borrowers	29.		
Total amount of loans outstanding for agricultural purposes incl. agribusiness	30.	Where available, please obtain a breakdown of loans by purpose as at the end of 31.12.2012 and attach the copy.	
Total amount of loans outstanding or consumption purposes	31.		
Amount of loans with maturity above 1 year	32.		
Number of staff of the bank	33.		
Total number of loan officers	34.		
Number of branches	35.		

Amounts in million Cedis (GHS), e.g. 12.15

36. For loans below GHS 2,000, what kind of collateral is usually required from borrowers:
☐ Land ☐ Deposit up to 20 per cent ☐ Deposit 21-40 per cent ☐ Deposit above 40 per cent
☐ One guarantor without salary
☐ One guarantor with salary ☐ Two guarantors without salary ☐ Two guarantors with salary ☐ Joint liability
☐ Asset/ownership pledge/transfer/registry ☐ Receipt of ownership documents (vehicles)
☐ (l) Other (specify): ☐ (m) Other (specify):

37. Do you finance start-ups of businesses? ☐ Yes ☐ No

38. How many loans have you financed in the past three years for which your client received an MG? Number:

39. What was the respective total loan amount? GHS: million

40. How do you compare loan repayment rates of MG recipients with those of other clients with loans for business purposes:
(a) MG recipients had much higher loan repayment rates than others
(b) MG recipients had somewhat higher loan repayment rates than other
(c) MG recipients had the same loan repayment rates as other clients than other
(d) MG recipients had somewhat lower loan repayment rates than other
(e) MG recipients had much lower loan repayment rates than others

41. What were the main reasons for default of borrowers receiving MGs? (Multiple answers possible)
☐ Loan duration too short in view of the cash flow generated ☐ Insufficient profits realized by borrower
☐ Insufficient working capital of the entrepreneur/enterprise ☐ Internal governance problems
☐ Insufficient management skills ☐ Excessive use of cash inflows for consumption, instead for business
☐ Death, sickness or family crisis ☐ Other reasons (specify):
☐ Other reasons (specify):

42. How do you compare the operating costs of loans granted to MG recipients with those to other clients in the agricultural/MSE sector:
☐ (a) loans to MG recipients had much higher operating costs than others
☐ (b) loans to MG recipients had somewhat higher operating costs than others
☐ (c) loans to MG recipients had the same loan operating costs as other clients
☐ (d) loans to MG recipients had somewhat lower operating costs than others
☐ (e) loans to MG recipients had much lower higher operating costs than others

43. Please provide reasons for your above assessment of operating costs:

Please provide figures on the number and value of loans with MG contribution for 2009 to 2012:

Year ending	Number of loans granted	Value of loans granted (GHS)
2009	1.	2.
2010	3.	4.
2011	5.	6.
2012	7.	8.

54. In your bank, has the proportion of loans for clients with similar characteristics as the MG recipients increased, remained stable or declined? ☐ Increased ☐ Remained stable ☐ Declined

55. In your bank, has the proportion of term loans above 12 months (for clients with similar characteristics as the MG recipients?) increased, remained stable or declined? ☐ Increased ☐ Remained stable ☐ Declined

56. In your appraisal of the investment, which of the following cost items did you consider:
☐ Only the costs of the equipment and its installation, excluding working capital required
☐ Both the equipment and the incremental working capital required

57. Between your approval and the final loan disbursement for the MG, how many weeks elapsed, on average?
¬¬_____ weeks

58. Has the collaboration with the project and the experience with MGs helped you to improve your loan appraisals system? ☐ Yes ☐ No

59. Brief explanation:

60. Has the collaboration with the project and the experience with MGs helped you to improve your loan monitoring capacity? ☐ Yes ☐ No

61. Brief explanation:

Below are a number of dimensions on which we seek your views. As a result of the project, we ask you to rate the extent of confidence of your bank with the following dimensions or issues, by using a scale from 1 to 10, where 1 is the lowest value of confidence, and 10 the highest.

As a result of the project, how confident is your bank today with	Extent of confidence on scale from 1 to 10 [circle number or mark on scale with "x"]
62. … the type of clients and enterprises that received the MGs	1 2 3 4 5 6 7 8 9 10
63. … the type of investments for which MGs were provided	1 2 3 4 5 6 7 8 9 10

Again, using a scale from 1 to 10, where 1 is the lowest value and 10 the highest,

What is the extent of willingness of your bank to provide loans without matching grants for ...	**Extent of willingness on scale from 1 to 10 [circle number or mark on scale with "x"]**
64. … the type of clients and enterprises that previously received the MGs	1 2 3 4 5 6 7 8 9 10
65. Brief explanation:	
66. … the type of investments for which MGs were previously provided	1 2 3 4 5 6 7 8 9 10
67. Brief explanation:	

68. Were most of the borrowers that received an MG existing or new clients of your bank?
☐ Existing clients ☐ New clients

69. In retrospect, on the basis of your current experience and knowledge, would you participate again in the MG scheme? ☐ Yes ☐ No

70. Please provide a brief explanation:

71. Do you have any plans to continue, expand, decrease or stop the granting of loans to MG recipients?
☐ (a) Yes, to continue ☐ (b) Yes, to expand ☐ (c) Yes, to decrease ☐ (d) Yes, to stop ☐ (e) No

72. Please provide a brief explanation:

Again, using a scale from 1 to 10, where 1 is the lowest value and 10 the highest,	**Extent of satisfaction ... on scale from 1 to 10 [circle number or mark on scale with "x"]**
73. To what extent are you satisfied with the technical preparation of MG recipients by the project or external parties/service providers?	1 2 3 4 5 6 7 8 9 10
74. To what extent are you satisfied with the selection and pre-appraisal of borrowers/grant recipients by the project or external parties/service providers?	1 2 3 4 5 6 7 8 9 10
75. To what extent are you satisfied with the business plans prepared for the borrower/grant recipients by the project or external parties/service providers?	1 2 3 4 5 6 7 8 9 10
76. To what extent did the MG scheme in which your bank participates fit into the overall strategies of and visions for your bank?	1 2 3 4 5 6 7 8 9 10

77. What proportion of the grants recommended by the respective project has your bank rejected? _____ per cent

78. What proportion of the grants your bank approved has the project rejected? _____ per cent

Again, on a scale from 1 to 10, to what extent has the MG:	**Extent of assistance on scale from 1 to 10 [circle number or mark on scale with "x"]**
79. … helped clients that received one MG remain permanent loan clients of your bank?	1 2 3 4 5 6 7 8 9 10
80. … reduced the risk to your bank?	1 2 3 4 5 6 7 8 9 10

81. Up to what percentage of the total costs of similar investments would you be willing to finance in absence of an MG? _____ per cent

82. Please provide a brief explanation:

83. Do you have any plans to increase lending for agriculture production? ☐ Yes ☐ No

84. Do you have any plans to increase lending for agribusiness? ☐ Yes ☐ No

85. As regards the MGs, what was missing that should have been done under the project?

86. What were the main weaknesses you observed as regards the MG scheme?

87. Learning from past experience, what recommendations do you want to pass on to the designers of new MG schemes?

Thank you very much for your collaboration and support.

Impact Assessment of MG Schemes in Ghana **Interview No.:** ←
Joint FAO/IFAD initiative **Questionnaire for MG recipients (version 10)** **IFAD-Project:**

Date of interview (dd|mm|yyyy): | |**2013** |Time of interview:
Interviewee name Mr/Ms | Position of interviewee in business
Interviewee mobile phone no. | Location:
District:

Introduction by interviewer: IFAD and FAO are currently assessing the impact of the MG programme, funded and facilitated by RTIMP/REP projects. Through our study, we try to better understand how the MGs have contributed to an improvement of the businesses: what went well and what did not go well. The information will help us improve this type of project in the future. We would, therefore, appreciate your frank and honest responses and recommendations.

1. MG respondent is: ☐ Individual ☐ Group/cooperative ☐ Enterprise/firm/company

For individual respondents only:

2. What is your main occupation/business?
3. What other business/economic activities are pursued by you and your spouse?
4. How many dependants do you have (i.e. wives, children, parents and other household members) that partly depend on your income?
5. What is your highest level of school education?
   ☐ (a) No school attendance ☐ (b) Some primary school ☐ (c) Finished primary school/BEC
   ☐ (d) Some secondary school ☐ (e) Secondary school leaving certificate/GCE/SHS
   ☐ (f) Technical/vocational training ☐ (g) University/Polytechnic
6. How many months of work-related courses and training have you received in the past three years? |months
7. Do you own any of the following assets: ☐ Mobile phone ☐ House ☐ Motorcycle ☐ Car ☐ Fridge
8. Kindly tell us in what age bracket you are: ☐ below 25 ☐ 26-35 ☐ 36-45 ☐ 46-55 ☐ above 55

For groups/cooperatives only:

9. When was the group established? Year
10. How many members were you at the beginning?
11. How many members are you now?
12. At present, how many members are women?
13. Why did you form the group?
14. Has the group been registered? ☐ Yes ☐ No
15. If yes, as what type of organization?
16. What are the main occupations of members? (Multiple responses possible) ☐ Farming ☐ Trading
    ☐ Crafts/artisans ☐ Food processing ☐ Salaried workers
    ☐ Other (specify):_____ ☐ Other (specify):_____
17. What income-generating activities did the group carry out prior to the project?

For enterprises/companies/firms only:

18. When was the enterprise/company established? Year
19. How many shareholders/partners are you now in the enterprise/company?
20. What was the initial business purpose of the enterprise/company?
21. Has the enterprise/company been registered? ☐ Yes ☐ No
22. If yes, as what type of enterprise has it been registered? ☐ Enterprise ☐ Company Ltd. ☐ Partnership

For individuals, groups and enterprises/firms:

23. Which of the following do you operate as entrepreneur/group or company?
    ☐ Savings account ☐ Current account ☐ Both
24. Which of the following do you patronize: ☐ Susu deposit collection ☐ Susu group ☐ Credit union

Details on the business and investment supported by an MG:

25. In which month and year did you receive the project funds? Month Year
26. Which bank granted the loan? Name of bank:
27. How many years did you run this type of business activity before receiving the project fund? _____years

28. For what project/business activities was the MG given to you?

29. How did the idea for the project come up (multiple responses possible)? ☐ Own initiative/self-generated idea
☐ Initiative of project staff ☐ Information by government officials ☐ Good Practice Centre
☐ Business Advisory Centre ☐ Information through public media (Newspapers, radio etc.)
☐ Others (specify) :
☐ Others (specify) :

30. What items/equipment did you purchase? Please also include installation costs, where applicable.
Item 1_____
Item 2_____
Item 3_____
Item 4_____
Item 5_____

31. What was the total amount of your project? GHS:

What were the amounts of: 32. ☐ Bank loan: GHS _____

33. ☐ MG: GHS _____ 34. ☐ Your equity contribution: GHS _____

35. What was the duration of the bank loan? Years

36. Over and above of the 10 per cent of your equity contribution, how much on top of this did you actually contribute during the first 12 months after the start? Please split between costs for additional assets, equipment and buildings, on the one side, and additional working capital needed for the running expenses of the project, on the other. ☐ Additional expenses for equipment: GHS ☐ Additional working capital: GHS

37. When the project was discussed between you, the bank and the project staff, was the need for additional working capital sufficiently taken into consideration? ☐ Yes ☐ No

38. Was there any shortfall in working capital? ☐ Yes ☐ No

39. Were you able to get additional funds to cover this shortfall? ☐ Yes ☐ No

40. If yes, how did you raise the additional working capital?

41. Did the shortage of working capital negatively affect your operations? ☐ Yes ☐ No

Apart from the project fund, please provide us with details of the two other loans you received immediately before and after the MG project, including banks, other financial institutions, money lenders, friends or family members, and tell us what were the amounts, the loan duration and the purposes for each of these.

Loan number	Year	Source	Amount in GHS	Duration in years	Purpose
		Before the MG project			
Loan 1	42.	43.	44.	45.	46.
Loan 2	47.	48.	49.	50.	51.
		After the MG project			
Loan 3	52.	53.	54.	55.	56.
Loan 3	57.	58.	59.	60.	61.

62. In your opinion, was the loan amount received from the participating financial institution (PFI) sufficient to fund the normal operations, including the purchase of equipment, raw material and operating costs?
☐ Yes ☐ No

63. As regards the loan you received for the MG project, have you repaid your loan? ☐ Yes ☐ No

64. If yes, were you always able to repay the loan on time/make instalment payments on time? ☐ Yes ☐ No

65. In case you were not able to repay on time, how many instalments were paid late to the bank? Number:

66. In case of default, what has affected your ability to repay the loan on time?

67. How were you able to raise the required equity contribution, including any eventual extra capital needed?

68. Did you have to borrow from a third party to be able to show your full equity contribution? ☐ Yes ☐ No

69. Comparing the amount of sales before the start of the MG project with today, how much are your sales at present: Much less, a bit less, the same, twice, or thrice or more?
☐ Much less ☐ A bit less ☐ About the same ☐ About twice ☐ About three times or more

70. Looking at the amount of profits before the start of the MG project with today, how much is your profit at present: Less, the same, twice, or thrice or more? ☐ Less ☐ The same ☐ Twice ☐ Three times or more

71. How many staff did you employ before the MG project? Staff Of these, how many were:

72. Full-time staff: 73. Part-time and seasonal staff: 74. Family members:

75. How many staff do you employ now? Staff Of these, how many were:

76. Full-time staff: 77. Part-time and seasonal staff: 78. Family members:

79. Did you experience any major breakdown of the equipment purchased? ☐ Yes ☐ No

80. If yes, for how long were operations interrupted? Months

81. Did you replace any of the equipment purchased? ☐ Yes ☐ No

82. How do you make sure you have funds available in case of equipment breakdown?

83. What type of training and business advice did you receive prior, during and after the MG project? From whom?

84. Source: ☐ REP ☐ RTIMP ☐ BAC ☐ Other govt.-sponsored sources ☐ Self-sponsored ☐ Other:_____

85. Currently, do you have sufficient access to spare parts and repair services? ☐ Yes ☐ No

86. Are there any important factors that have negatively or positively affected your business, which we have not talked about yet? ☐ Yes ☐ No 87. If so, please state the most important ones:

88. Do you think that the MG project has improved your access to bank finance? ☐ Yes ☐ No

89. Do you have any plans to apply for a new loan? ☐ Yes ☐ No

90. If yes, would you go to the same bank from where you obtained the MG loan? ☐ Yes ☐ No

91. How long did it take between finalizing the loan application and actually getting the bank loan?
Months

92. How long did it take between finalizing the loan application and actually getting the MG?
Months

We will now ask for your opinions on a number of issues dimensions. We ask you to rate the extent of satisfaction with the following issues, by using a scale from 1 to 10, where 1 is the lowest value, and 10 the highest.

To what extent are you satisfied with …	**Extent of satisfaction ... on scale from 1 to 10 [circle number or mark on scale with "x"]**
93. ... the quality of the equipment received/purchased	1 2 3 4 5 6 7 8 9 10
94. … the financial results achieved through the MG project	1 2 3 4 5 6 7 8 9 10
95. … the terms and conditions of the loan you received	1 2 3 4 5 6 7 8 9 10
96. … the terms and conditions of the MG	1 2 3 4 5 6 7 8 9 10
97. … the other support services you received from the project	1 2 3 4 5 6 7 8 9 10
98. Again, on a scale from 1 to 10, to what extent has yourconfidence in the bank from where you got the loan increased?	1 2 3 4 5 6 7 8 9 10
99. Again, on a scale from 1 to 10, to what extent has the MG project helped you to improve your access to business advisory services?	1 2 3 4 5 6 7 8 9 10
100. Again, on a scale from 1 to 10, to what extent has the MG project helped you to improve your access to technology?	1 2 3 4 5 6 7 8 9 10

101. Overall, did the MG project improve your well-being? ☐ Yes ☐ No

102. With your today's experience and knowledge, would you have undertaken the investment without the MG, assuming that the bank would have provided you with sufficient loans? ☐ Yes ☐ No

Please provide us with your views, comments or recommendations on:

103. →The type of project you undertook:

104. →The MG concept, procedures, approaches:

105. →The PFI:

106. →The project:

107. Here is some space for any other point you want to raise or recommendation you want to give us.

Thank you very much for your collaboration and support.

Annex 4: Statistical data

4.1 Socio-economic profile of grantees

Gender, age and educational levels. Disaggregated by gender, data indicate that 72 per cent of all beneficiaries were women and 28 per cent were men. This result was due to women's strong representation in the groups (75 per cent). In the case of individuals, the gender balance is slightly tilted towards men (male: 56 per cent; female: 44 per cent). In the RTIMP, accounting for the bulk of the groups in the sample, over 80 per cent of all group members were women.[87] Data on age were collected for individuals and, therefore, reflects REP II beneficiaries mainly. About one third (37 per cent) of individual REP II beneficiaries belonged to the age bracket between 26 and 35 years, whereas two thirds were over the age of 35. Out of the five RTIMP individual MG recipients, four were older than 35. A further disaggregation by gender shows that women were slightly over-represented in the age group below 35 (45 per cent). Data on the level of education were only collected for individuals. About half (49 per cent) of the beneficiaries of both programmes completed primary school, whereas only 8 per cent had high school education and above. Almost one out of five respondents did not attend school at all, as shown in Table 21.

Table 21: Educational level of individual beneficiaries

	No school attendance	Some primary school	Finished primary school/ BEC	Some secondary school	GCE-SHS*	Technical/ vocational training	University/ Polytechnic	Total
REP	13 (19%)	4 (6%)	35 (50%)	5 (7%)	6 (9%)	3 (4%)	4 (6%)	70 (100%)
RTIMP	1 (20%)	0 (0%)	2 (40%)	0 (0%)	0 (0%)	0 (0%)	2 (40%)	5 (100%)
Total	**14 (19%)**	**4 (5%)**	**37 (49%)**	**5 (7%)**	**6 (8%)**	**3 (4%)**	**6 (8%)**	**75 (100%)**

* Equivalent to high school diploma.

87 For companies, information on gender of the owner has only been reported in a few cases. Often, companies seemed to be owned and managed by families, with different family members exercising different managerial and technical functions.

Dependants. On average, individual respondents had seven dependants (i.e. spouse, children, parents and other household members who partly depended on the respondent's income), with a median of six dependants. The upper and lower values were 1 and 20; 43 per cent had 1-5 dependants, 42 per cent had 6-10, and 15 per cent had more than 10.

Asset ownership of respondents. Mobile phones were the most frequently owned asset among the respondents, with 96 per cent owning at least one asset. A total of 59 per cent of respondents owned a refrigerator, 50 per cent lived in their own home, 38 per cent had a motorcycle and 17 per cent owned a car. These data indicate that respondents clearly belonged to the category of economically active rural MSEs, but not to the disadvantaged rural poor.

Sources of inspiration. Asked about the genesis of the original idea and impetus for carrying out the investment, 61 per cent of the RTIMP beneficiaries stated that it grew out of their own initiative, whereas 16 per cent were inspired by programme staff. In the case of REP II, an equal number claimed their own initiative and BACs as sources of inspiration. These responses underline the important role played by the BACs in REP II (see Table 26).

Support services received. In total, beneficiaries reported having attended 151 trainings (REP: 75 per cent; RTIMP: 25 per cent). Seventy per cent of the trainings related to business advisory services (i.e. business management, credit management, entrepreneurship development, loan management), whereas 30 per cent were of a technical nature (i.e. record-keeping, technical and vocational skills). The main service providers mentioned by beneficiaries were BACs, RTFs, RTIMP, followed by the Ministry of Food and Agriculture officials, craftworker associations and other government institutions. Overall, the level of satisfaction with the services provided was high, averaging 8.9 on a scale from 1 to 10. There was a further noticeable difference between REP II clients, with an average rating of 9.2 (above the REP II average rating on all parameters), as opposed to 7.9 for RTIMP. Almost two out of three REP beneficiaries gave this dimension the highest score of 10. Hence, REP clients were particularly satisfied with the services received from the project.

4.2 Key performance indicators of the surveyed rural banks

Table 22 below presents the main characteristics of the ten RCBs surveyed.

Table 22: Key performance indicators of the ten RCBs surveyed

Item	2012	2011	2010
Average total assets	14.3	10.8	7.4
Average loans outstanding	7.1	4.7	3.5
Average deposit liabilities	11.3	8.9	6.6
Average deposits with maturities >12 months	1.0	0.9	0.8
Average external loan liabilities >12 months	0.7	0.4	0.4
Average equity funds	1.4	1.0	0.7
Average operating costs	2.2	1.4	1.0
Average operating costs/total loans in %[88]	29%	30%	28%
Average operating costs/total assets in %	16%	14%	14%
Average cost of capital	0.4	0.2	0.2
Average cost of funds/total loans in %	5%	5%	5%
Average loan loss provisions	0.3	0.2	0.1
Average loan loss provisions/total loans in %	4%	3%	4%
Average number of depositors	33 297		
Average number of borrowers	4 203		
Average value of agriculture and agribusiness loans	1 308		
Average agriculture and agribusiness loans in % of total loans	19%		
Average value of consumption loans	2.09		
Average value loans >1year	3.76		
Average loan outstanding	1 823		
Average number of staff	74		
Average number of loan officers	10		
Average number of loans per loan officer	479		
Average number of branches	6.4		

Note: Amounts in GHS million.

Source: Survey data.

[88] Methodologically, it is incorrect to relate total operating costs of the banks to the loan portfolio only, as banks provide a range of services under different profit centers. Given that loans in the ten banks account for about 60 per cent of earning assets, it would, in the absence of transaction cost studies, be more appropriate to use a similar rate for these costs here only. However, the data show that these banks need to charge interest rates of at least 27 per cent on loans and that they would need to reduce their operating costs if they wanted to become more competitive and offer interest rates similar to those of the commercial banks.

Table 23: PFI participation in the MG scheme under RTIMP

Financial institution	Total project amount (GHS)	Share	Number of MGs	2009	2010	2011	2012	2013
Kwamanman Rural Bank	460 720	38.8%	28	X	X	X		
Mfantseman Community Bank	232 800	19.6%	8			X		
Nkoranza-Kwabre Rural Bank	226 000	19.0%	9			X		
Amantin and Kasei Community Bank	89 600	7.5%	3	X	X			
Ecobank Ghana	50 000	4.2%	1				X	
Akatakyiman Rural Bank	31 200	2.6%	2					
Nkoranman Rural Bank	30 000	2.5%	1					X
Odotobri Rural Bank	26 000	2.2%	1			X		
Otuasekan Rural Bank	18 000	1.5%	1	X				
Okomfo Anokye Rural Bank	16 000	1.3%	1		X			
Naara Rural Bank	7 542	0.6%	1					X
Total	**1 187 862**	**100%**	**56**					

Source: RTIMP Monitoring data.

Table 24: PFI participation in the MG scheme under REP II

Financial institution	Total project amount (GHS)	Share	Number of MGs	2009	2010	2011
Okomfo Anokye Rural Bank	307 500	24.5%	95			X
Upper Amenfi Rural Bank	289 317	23.1%	141	X	X	
Naara Rural Bank	137 441	11.0%	32	X	X	
East Mamprusi Community Bank	175 175	14.0%	90			X
Amantin and Kasei Community Bank	93 800	7.5%	78	X	X	
Mepe Area Rural Bank	85 810	6.8%	14	X	X	X
Sekyere Rural Bank	40 000	3.2%	8			X
Bawjiase Area Rural Bank	36 000	2.9%	2	X	X	
Sissala Rural Bank	33 806	2.7%	24		X	
North Tongu Rural Bank	26 700	2.1%	10			X
Baduman Rural Bank	17 000	1.4%	4			X
South Akim Rural Bank	5 000	0.4%	5	X	X	X
Amansie West Rural Bank	5 000	0.4%	2		X	
Asutifi Rural Bank	2 400	0.2%	2	X	X	
Total	**1 254 949**	**100.0%**	**507**			

Source: RTIMP Monitoring data.

Table 25: Distribution of MG recipients by economic sector

Sector	Number	Share	Subsector	Number	Share
Manufacturing	32	33%	Dressmaking	14	14%
			Soap making	4	4%
			Traditional crafts	3	3%
			Carpentry	3	3%
			Metal works	2	2%
			Other	6	6%
Food processing	28	29%	Cassava processing	20	20%
			Bakery	7	7%
			Palm oil processing	1	1%
Farming	23	23%	Bee-keeping	10	10%
			Cocoa farming	6	6%
			Cassava farming	6	6%
			Other	1	1%
Services	15	15%	Hairdressing	9	9%
			Teaching	4	4%
			Other	2	2%
Total	**98**	**100%**		**98**	

Source: FAO/IFAD survey.

Table 26: Investment size by programme

REP II			RTIMP		
Investment size	**Number**	**Share**	**Investment size**	**Number**	**Share**
<1 000	12	18%	< 10 000	6	27%
1 001-2 000	25	38%	10 001-20 000	7	32%
2 001-3 000	11	17%	20 001-30 000	4	18%
3 001-5 000	4	6%	30 001-40 000	2	9%
5 001-7 500	6	9%	40 001-50 000	2	9%
7 501-10 000	2	3%	50 001-60 000	1	5%
>10,000	5	8%			
TOTAL	65	100%		22	100%

Source: FAO/IFAD survey.
Note: Investment size includes MG, bank loan and beneficiary contributions.

Table 27: Origin of the idea for the investments cofinanced by MGs

How did the idea for the project come up	REP	RTIMP
Own initiative/self-generated idea	42%	61%
Business advisory centre	42%	6%
Initiative of project staff	4%	16%
Information by government officials	0%	3%
Good practice centre	0%	3%
Information through public media (newspapers, radio, etc.)	0%	0%
Other source of inspiration	11%	10%

Source: FAO/IFAD survey.

Table 28: Participation of financial institutions under RTIMP and REP II

	RTIMP		REP II	
Participating financial institutions	**Number of MGs**	**% of MGs**	**Number of MGs**	**% of MGs**
Akatakyiman Rural Bank	2	4		
Amansie West Rural Bank			2	0
Amantin and Kasei Community Bank	3	5	78	15
Asutifi Rural Bank			2	0
Baduman Rural Bank			4	1
Bawjiase Area Rural Bank			2	0
East Mamprusi Community Bank			90	18
Ecobank Ghana	1	2		
Kwamanman Rural Bank	28	50		
Mepe Area Rural Bank			14	3
Mfantseman Community Bank	8	14		
Naara Rural Bank	1	2	32	6
Nkoranman Rural Bank	1	2		
Nkoranza-Kwabre Rural Bank	9	16		
North Tongu/Amuga Rural Bank			10	2
Odotobri Rural Bank	1	2		
Okomfo Anokye	1	2	95	19
Otuasekan Rural Bank	1	2		
Sekyere Rural Bank			8	2
Sissala Rural Bank			24	5
South Akim Rural Bank			5	1
Upper Amenfi Rural Bank			141	28
Total	**56**	**100**	**507**	**100**

Source: RTIMP and REP II monitoring data.

Note: Banks shaded in grey acted as PFI under both projects.

International Fund for Agricultural Development
Via Paolo di Dono, 44 - 00142 Rome, Italy
Tel: +39 06 54591 - Fax: +39 06 5043463
E-mail: ifad@ifad.org
www.ifad.org
www.ruralpovertyportal.org
ifad-un.blogspot.com
www.facebook.com/ifad
instagram.com/ifadnews
www.twitter.com/ifadnews
www.youtube.com/user/ifadTV

Food and Agriculture Organization
Viale delle Terme di Caracalla - 00153 Rome, Italy
Tel: +39 06 57051 - Fax:(+39) 06 570 53152
E-mail: FAO.HQ@fao.org
www.fao.org

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