

Republic of Ghana

Rural Financial Services Project Project Performance Assessment

Executive Summary

1. **Background.** The objective of this project performance assessment (PPA) of the Rural Finance Support Project (RFSP) in Ghana was to generate findings and recommendations for the implementation of ongoing operations in the country and for the design of future operations. This assessment builds upon the previous project completion report validation and adds findings from a mission to Ghana conducted between February and March 2011.
2. The project started in 2002 and was completed in 2008. It was cofinanced by IFAD, the World Bank, and the African Development Bank (AfDB). RFSP was a sub-sector specific and country-wide project with interventions at macro, meso and micro level. The overall objective was to complement government efforts in reducing poverty by broadening access to rural finance. The total cost of the RFSP was US\$22.9 million of which US\$10 million from IFAD's loan. After RFSP, IFAD funded a follow-up project, the Rural and Agricultural Finance Programme (RAFIP) which started in 2010.
3. **Relevance.** The RFSP was consistent to national policies, IFAD's country strategy and rural finance policy, as well as to national micro and rural finance development needs. The design was inspired by recognized good practices in rural finance. It covered micro, meso and macro aspects of the financial sectors and emphasized the development of sustainable financial institutions. Yet the design had two shortcomings: first, it aimed at introducing linkages between informal and formal financial institutions, a model known in India, without adapting the linkage model to the Ghanaian context. Second, the RFSP design did not articulate well linkages with other IFAD-supported interventions in Ghana that could benefit from enhanced access to rural finance services.
4. **Effectiveness.** RFSP made breakthroughs in its support to the rural bank network. It established the ARB Apex Bank, an umbrella organization of rural banks. Through this ARB Apex Bank, RFSP channelled training and capacity building support services to rural banks. Through this support, RFSP contributed to the professionalization of rural banks and helped turning them into financially solid institutions, capable of offering a wider array of products, particularly savings products. RFSP also made progress in supporting regulatory institutions such as the Bank of Ghana and the Ministry of Finance and Economic Planning, whose staff was introduced to recognized good practices in microfinance. A special division on microfinance was established within the Bank of Ghana and its capacity to supervise rural banks was progressively enhanced. RFSP stimulated the debates of a national Micro Finance Forum which led to the preparation of a Microfinance Policy in 2006. This marked an important step in policy dialogue, although subsidised public credit programmes – that can distort financial market – have not been phased out.
5. **Efficiency.** While RSP met the majority of its goals (and exceeded some of them) within the foreseen resource envelope, RFSP start-up met with significant delays, due to a change in Government. IFAD's portion of the loan was eventually disbursed according to the original plans but delays were observed in the case of World Bank and AfDB cofinancing loans.
6. For this PPA, it was challenging to assess the *impact* of RFSP on rural poverty due to the absence of a dedicated survey. Evidence is strong, however, in terms of positive

impact on institutions and policies. At the national level, the establishment of the ARB Apex Bank helped boost confidence in the rural banking system. By supporting a microfinance forum, RFSP contributed to the debate on subsidised interest rates and to the drafting of a policy on microfinance. At the household level, it is clear that, thanks to RFSP, rural low income population has now better access to deposits products promoted by rural banks. There is some evidence of increased lending to low income and poor clientele in rural areas but no significant evidence of increased lending for agricultural activities, therefore not reaching an important segment of the rural poor.

7. **Sustainability** of benefits largely depends on the sustainability of institutions. Apex organizations such as the ARB Apex Bank and the Credit Union Association has been able to continue and expand their functions after the project closure. At the individual level, rural banks have improved their financial self-sufficiency.
8. RFSP helped introduce innovations such as term deposits, money transfer services and "susu"¹ saving products in some rural banks. However, the concept of linkage between formal and informal microfinance organizations was an innovative idea which never took off because the project design did not clearly propose appropriate roll-out and support. In general, while RFSP promoted innovative concepts, it was left up to each participating financial institution to introduce the products and define processes to scale them up, with limited guidance from the project, and this increased exposure to risks.
9. Gender equality was not an initial focus area of the project. Yet, microfinance services within rural banks are now better accessible to both women and men. In some rural banks, policies promoting gender equality exist, but the implementation varies. In the boards of financial institutions, representation of women is still low.
10. **Conclusions.** RFSP's value added mainly consisted of its accomplishments in institutional development and its contribution to greater outreach of rural banks and credit unions. This outreach is mainly related to savings product and credit for non-agricultural activities. The progress made in boosting credit to agricultural activities and value chains was more modest. RFSP made progress in policy dialogue, particularly with the approval of the Ghana Microfinance Policy of 2006. The above important achievements for the rural and microfinance sector as a whole are broadly beneficial to low-income and poor households in the country. In line with IFAD's mandate, the project's main weakness was its limited focus on micro-level interventions that cater for the specific needs of the poor, such as the envisaged linkages between informal and formal financial institutions. Also, there were limited synergies between RFSP and other IFAD-supported projects in Ghana.
11. **Recommendations.** This PPA formulates the following recommendations that may be adopted by the RFSP successor programme (RAFIP).

Recommendation 1. Provide support to innovations (processes and financial products) in a more systematic manner, with pre-feasibility studies and pilot tests to ensure that key stakeholders contribute to design and better manage risks.

Recommendation 2. Support credit for agriculture and agricultural value chains by introducing and progressively expanding innovative financing instruments such as matching grants and guarantee schemes, as well as by ensuring more synergies between IFAD-supported projects in rural and agricultural development and RAFIP (RFSP successor intervention).

Recommendation 3. Continue to support policy dialogue in rural and microfinance, enhance coordination among donors and support apex organizations so that the latter can take a more active role in the appropriate sectoral fora.

¹ Susu is an informal way of saving money with a savings collector who does the collection from door to door.

Recommendation 4. Strengthen monitoring and evaluation systems by investing in further informatization of the sector and introducing internationally recognized indicators in the self-monitoring system of micro and rural finance institutions; more systematically assess the usefulness of training packages; conduct a baseline and follow-up survey on the socio economic impact of country-wide rural and microfinance programmes such as RAFIP.