

IN THE THIRD SESSION OF THE FIFTH PARLIAMENT OF THE FOURTH
REPUBLIC OF GHANA

**REPORT OF THE FINANCE COMMITTEE ON THE
FINANCING AGREEMENT BETWEEN THE
GOVERNMENT OF THE REPUBLIC OF GHANA AND
THE INTERNATIONAL FUND FOR AGRICULTURAL
DEVELOPMENT (IFAD) FOR AN AMOUNT OF
NINETEEN MILLION, SEVEN HUNDRED THOUSAND
SPECIAL DRAWING RIGHTS (SDR 19,700,000)
[US\$31,500,000.00 EQUIVALENT] TO CO-FINANCE
THE RURAL ENTERPRISE PROGRAMME (REP)**

1.0 INTRODUCTION

The Financing Agreement between the Government of the Republic of Ghana and the International Fund for Agricultural Development (IFAD) for an amount of *Nineteen Million, Seven Hundred Thousand Special Drawing Rights* (SDR 19,700,000.00) (US\$31,500,000.00 equivalent) to co-finance the Rural Enterprise Programme (REP) was laid in the House on Tuesday 15th November, 2011 by Hon. John Gyetuah, Minister of State at the Presidency on behalf of the Minister for Finance and Economic Planning.

Pursuant to order 171(1) of the Standing Orders of the House, the Rt. Hon. Speaker referred the Agreement to the Finance Committee for consideration and report.

The Committee met and considered the Agreement with the Minister for Finance and Economic Planning, Hon. Dr. Kwabena

Duffuor, Minister for Trade and Industry, Hon. Hannah Tetteh and officials from the Ministries of Finance & Economic Planning (MOFEP) and Trade and Industry (MOTI) and hereby presents this Report to the House in accordance with Order no. 161 (1) of the Standing Orders of the House.

2.0 BACKGROUND

The Rural Enterprises Project has been part of Government's efforts to reduce poverty and improve living conditions in rural areas. Phase I of the Rural Enterprises Project was implemented from 1995 to 2002 in 13 districts in the Ashanti and Brong Ahafo Regions. The second phase (2003-2012) is being implemented in 66 districts nationwide. The Rural Enterprises Project (phases I and II) have since 1995, contributed to the successful implementation of the national strategies for Micro and Small Enterprise (MSE) Promotion, with emphasis on addressing skills gaps and the transfer of technologies.

The Rural Enterprises Project also links to the Private Sector Development Strategy phase II (PSDS II) of the Ministry of Trade and Industry (MOTI). The experience of the REP I & II has shown that rural MSEs contribute to local economic growth, reduce social inequalities and generate revenue for the District Assemblies.

Due to the positive impact of the Rural Enterprises Project I & II, the Government submitted a comprehensive *Programme proposal* on converting the Rural Enterprises Project I & II into a nationwide **Programme** to IFAD in 2010 for consideration and Funding.

Subsequent to the request, IFAD's Independent Office of Evaluation conducted an interim evaluation of the Rural

Enterprises Project II in July 2010. The results of the evaluation confirmed the relevance, efficiency and effectiveness of the Rural Enterprises Project model as a good innovation that should be adopted, upscaled and transformed into a "programme" (rather than a "Project") to promote micro-enterprise activities within all districts of rural Ghana.

3.0 PURPOSE OF THE CREDIT

The purpose of the credit is to provide part-financing for the Rural Enterprise Programme (REP) which is intended to achieve improvement in the livelihoods and incomes of rural poor/micro and small scale enterprises (MSEs) by specifically increasing the number of rural MSEs that generate profit, growth and employment opportunities.

4.0 TERMS OF THE CREDIT

| | | |
|-------------------------|---|---|
| Loan Amount | - | SDR 19,700,000.00 (US\$31,500,000.00 equivalent) |
| Interest Rate | - | Nil |
| Grace Period | - | 10 years |
| Repayment Period | - | 30 years |
| Maturity Period | - | 40 years |
| Service Charge | - | 0.75% p.a. on withdrawn amount |
| Closing Date | - | December 31, 2017 |

5.0 OBSERVATIONS

The Committee noted that the total cost of the Programme is **US\$185.1 million** and would be co-financed as follows:

| | Amt US\$ | % |
|---|----------------------|-------------------|
| 1. IFAD Loan | 31.5m | 17 |
| 2. African Development Bank | 70.0m | 38 |
| 3. Government of Ghana | 25.1m | 14 |
| 4. District Assemblies | 38.4m | 21 |
| 5. Participating Financial Institutions | 6.2m | 3 |
| 6. Beneficiaries | <u>13.9m</u> | <u>7</u> |
| TOTAL | <u>185.1m</u> | <u>100</u> |

The Committee observed that the scope of the Rural Enterprise Programme (REP) is to upscale and mainstream a district-based micro and small scale enterprise (MSE) support system nationwide within the public and private institutional systems. In order to develop the full potential of rural MSEs in Ghana, a district-based model for MSE promotion has been piloted by the Rural Enterprises Project which commenced in 1995. The model is based on three building blocks:

- (i) Access to Business Development Services (BDS) through a district-based Business Advisory center (BAC);
- (ii) Technology transfer through technical skills training and demonstrations, mainly delivered by Rural Technology Facility (RTF); and
- (iii) Access of MSEs to rural finance through linkages with Participating Financial Institutions (PFIs) including Rural and Community Banks and the ARB Apex bank.

The Rural Enterprise Programme has four main components:

Component 1 involves the upgrading of the technical and entrepreneurial skills of MSEs by providing access to business development services. The Business Advisory Centers (BACs), which function under the District Assemblies, will act as facilitators for the business development services to be delivered mainly through private operators.

Component 2 involves technology promotion and dissemination and would be fully funded by the African Development Bank. Under this component, the Programme shall upgrade the level of technology of the rural micro and small enterprise sector through skills training, technology dissemination and counseling services to be provided by the Rural Technology Facilities (RTFs). These RTFs would be established under partnership arrangement with District Assemblies and the GRATIS Foundation.

Component 3 is geared towards creating an enabling environment for rural micro and small enterprises to operate sustainably. It has two sub-components, namely Access to Rural Finance and Institutional Capacity Building and Policy Dialogue.

Under the sub-component on Access to Rural Finance, clients of Business Advisory Centers (BACs) and Rural Technology Facilities (RTFs) would be given enhanced access to finance from participating financial institutions, in complementarity with the IFAD-financed Rural Agricultural Finance Programme (RAFIP).

Under the sub-component on Institutional Capacity Building and Policy Dialogue, the programme shall strengthen and mainstream the MSE support institutions and shall support a strong local and national pro-poor policy dialogue.

Component 4 covers programme coordination, monitoring and Evaluation. The component will provide vehicles, office and

communication equipment, planning and review workshops, training of staff, salaries, travel costs and allowances, establishment and implementation of a result based Monitoring and Evaluation (M&E) system, including the procurement, installation and deployment of a performance and management system with Geographic Information System (GIS) capability.

Eligible expenditures to be financed by proceeds of the Loan and the allocation of the amounts to each category are as follows:

| Category | Loan Amount (SDR) | Percentage of Financing |
|--|------------------------------|---|
| I. Civil Works | 260,000 | 100% net of taxes |
| II. Vehicles, materials and equipment | 1,120,000 | 100% net of taxes and PFI contributions |
| III. Technical assistance and studies | 660,000 | 100% net of taxes |
| IV. Training and Workshops | 8,020,000 | 100% net of taxes, clients and PFI contributions |
| V. Credit funds and matching grant | 3,320,000 | 100% net of clients, government and PFI contributions |
| VI. Salaries and Operating Costs | 2,630,000 | 100% net of taxes, PFIs and government contributions |
| VII. BAC/RTF operating cost fund | 1,720,000 | 100% net of DAs |

| | | |
|--------------|-------------------|---------------|
| | | contributions |
| Unallocated | 1,970,000 | |
| TOTAL | 19,700,000 | |

In accordance with the *Loan Repayment Schedule* of the Financing Agreement, the *principal amount* of the Credit shall be repaid in 60 semi-annual installments on each January 15 and July 15 by the Government of Ghana, commencing on January 15, 2022 and ending on July 15, 2051. Each installment shall be SDR328,334.00 except the last installment which shall be SDR328,294.

The Committee was informed that the project will be implemented over a period of eight (8) years.

Hon. Members of the Committee sought to know what the criteria for selecting participating districts would be. To this, the Committee was informed that the Programme would generally cover all rural districts of the country, including the 66 districts already under the Rural Enterprises Project I & II. It was further explained to the Committee that geographic expansion of the Programme will be implemented on demand-driven basis on criteria which include:

- i. The predominantly rural character of the district
- ii. The poverty level of the district, and
- iii. The willingness of the District Assembly to participate, readiness and absorptive capacity.

On targeted beneficiaries, the Committee was informed that the Programme will primarily target the entrepreneurial poor, who

are mostly members of poor rural families that are able to convert the capacity-building support from the Programme into productive assets without or with barest additional investment support. Overall, the Programme targets at least 200,000 direct clients of which at least 50% will be women. This is expected to generate at least 100,000 additional jobs and about 36,000 new businesses.

TAXES

In accordance with article XI section 11.01 of the General Conditions governing IFAD Loans, the Loan proceeds shall be exempt from all taxes; thus the loan proceeds cannot be used to pay local taxes, VAT and custom duties on importation, procurement/supply of goods, civil works or services financed by the loan.

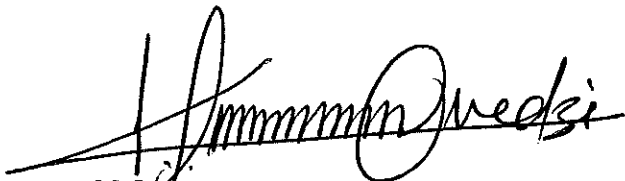
Having been informed that the quantum of taxes to be waived has already been captured as part of government's contribution to the program, the Committee recommends to the Ministry of Finance and Economic Planning to endeavor to bring to the House for consideration and approval, a formal request for the waiver of the taxes and duties associated with the Programme.

6.0 CONCLUSION

The Committee examined the Agreement and found that the terms satisfy Government's conditions for concessionary borrowing. The Rural Enterprise Programme was also found to be very relevant to stimulating and sustaining micro and small scale enterprises, job creation and poverty reduction in the rural areas.

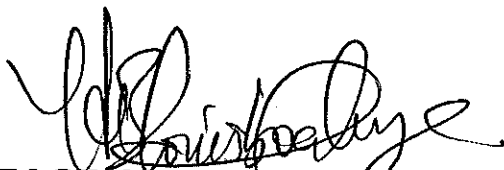
The Committee therefore respectfully recommends to the House to adopt this report and approve by Resolution, the **Financing Agreement** between the **Government of the Republic of Ghana** and the **International Fund for Agricultural Development Association (IFAD)** for an amount of *nineteen million, seven hundred thousand Special Drawing Rights* (SDR 19,700,000.00) (US\$31,500,000.00 equivalent) to finance the **Rural Enterprise Programme (REP)** in accordance with article 181 of the Constitution and sections 3 and 7 of the Loans Act, 1970 (Act 335).

Respectfully submitted.



HON. JAMES KLUTSE AVEDZI

CHAIRMAN



PEACE A. FIAWOYIFE (MS)

CLERK

29TH NOVEMBER, 2011.