

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

REPORT OF THE FINANCE COMMITTEE
ON THE LOAN AGREEMENT BETWEEN THE
GOVERNMENT OF THE REPUBLIC OF
GHANA AND KREDITANSTALT FUR
WIEDERAUFBAU (KFW) FOR AN AMOUNT
OF €7.0 MILLION TO IMPLEMENT THE e-
ZWICH RURAL BRANCHLESS BANKING

1.0 INTRODUCTION

The Loan Agreement between the Government of the Republic of Ghana and Kreditanstalt fur Wiederaufbau (KfW), Frankfurt AM Main, Germany for an amount of *seven million Euros (€7,000,000.00)* for the implementation of the e-Zwisch Rural Branchless Banking was *laid* in the House on Tuesday 12th July, 2011 in accordance with article 181 of the 1992 Constitution of the Republic of Ghana.

Pursuant to article 103 of the Constitution and Order no. 171(1) of the Standing Orders of the House, the Right Honourable Speaker referred the Agreement to the Finance Committee for consideration and report.

The Committee met and considered the Agreement with the Minister of Finance and Economic Planning, Hon. Dr. Kwabena Duffuor and his deputy Hon. Seth Terkper as well as officials from the Ministry of Finance and Economic Planning and the Ghana

Interbank Payment and Settlement Systems (GhIPSS) 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 Ghana Interbank Payment and Settlement System (GhIPSS) is a wholly owned subsidiary of the Bank of Ghana tasked to implement a countrywide biometric payment system, popularly known as "e-zwich". The system allows the delivery of quality financial services to the population of Ghana, especially the unbanked and the under-banked. The e-zwich technology permits offline transactions and fingerprint recognition making it highly suitable for rural areas and for less educated people.

The e-zwich product came to the market in April, 2008 and has since operated mainly in urban areas. After three years of operations, the need is felt to bring it to the rural areas.

The strategy of GhIPSS (known as the Rural Branchless Banking project) is to deploy, in partnership with financial institutions, the e-zwich infrastructure in rural areas through networks of agents and merchants. The objective is to make formal financial services available to all persons resident in Ghana.

As the cost of investment for the e-zwich infrastructure is high in comparison with expected revenues in rural areas, government approached Kreditanstalt fur Wiederaufbau (KfW) to consider providing this facility which would operate as a Revolving Credit Fund (RCF) to financial institutions interested in deploying e-zwich infrastructure in rural areas through networks of agents and merchants.

The €7.0 million loan would therefore be used to finance the RCF facility which promises to be a strong incentive to support the deployment of e-zwich in rural areas.

3.0 PURPOSE OF THE CREDIT

The purpose of the Credit is to procure funds to establish a Revolving Credit Fund (RCF) from which loans would be provided to financial institutions on revolving basis to enable them to acquire e-zwich infrastructure for the implementation of the e-zwich Rural Branchless Banking Project.

4.0 TERMS OF THE LOAN

The terms of the loan are as follows:

Grant Amount	-	€500,000.00
LOAN AMOUNT	-	€7,000,000.00
Grace Period	-	10 years
Repayment Period	-	40 years
Maturity Period	-	50 years
Interest Rate	-	0.75%
Commitment Fee	-	maximum of 0.25% p.a.
Closing Date	-	30th December, 2016

5.0 OBSERVATIONS

The Committee observed that the loan shall be used exclusively to finance the Revolving Credit Fund (RCF) under the e-zwich Rural Branchless Banking Project. The project activities to be financed from the loan include the investment cost of e-zwich infrastructure including Point of Sale Devices, merchant cards, customer cards and Automated Teller Machines (ATMs) mainly in the rural areas.

As to what constitutes a "rural area" for purposes of the project, the Committee was informed that under the project, rural areas are defined as "areas in communities of less than 5,000 inhabitants, which are located further than one hour walking distance or 4 km from a branch of a universal bank", and that at least 80% of the e-zwich infrastructure purchased from the proceeds of the loan shall be invested in such areas.

The technical team informed the Committee that the Credit Revolving Fund would be established by the Bank of Ghana/GhIPSS on behalf of Government of Ghana from which loans would be provided to financial institutions on revolving basis in order to acquire the e-zwich infrastructure.

Hon. Members sought to find out how much the rate of interest would be on the on-lent loans to the rural financial institutions, especially considering that the rate of interest on the Euro loan from KfW is 0.75%. To this, it was explained to the Committee that loans from the RCF to the financial institutions would be cedi denominated and therefore the interest rate would be pegged at 6%, a rate far lower than the BOG prime rate, to enable as many financial institutions as possible to take advantage of the facility to bring the e-zwich services to rural dwellers.

The Committee noted that the project would contribute to the development of the financial system and improve the economic circumstance of people living in rural areas.

The Chief Executive Officer of GhIPSS projected to the Committee that 7 million people are expected to be using the e-zwich by the year 2015; about 3 million of whom would be in rural areas. The e-zwich system would allow merchants and card holders easy and secure access to their money.

The Committee was further informed that the project would target rural sectors such as cocoa, fruit processing, fish farming, palm oil extraction etc to help enroll more people onto the e-zwich in groups.

Some Hon. Members advised the Bank of Ghana and GhIPSS to put in place effective mechanisms to ensure that unscrupulous persons do not take advantage of rural dwellers to defraud them under the pretext of providing them with services connected to the Rural Branchless Banking project.

Honourable Members of the Committee advised the GhIPSS Management to intensify public education on the e-zwich particularly in the rural areas so as to enable especially the less educated to understand and take advantage of the facility. They further suggested that the e-zwich be used to pay pensioners, student loan beneficiaries, national service persons, National Youth Employment Programme beneficiaries and other like groups for enhanced convenience and to help reduce banking charges.

The Committee observed that the e-zwich facility would help rural dwellers, especially traders to avoid travelling with large sums of cash and the attendant robbery attacks.

Some Honourable Members of the Committee expressed the opinion that the loan, amounting to €7.0 million, should have rather been sourced from the local financial market rather than from the KfW, a foreign entity. Deputy Minister of Finance and Economic Planning, Hon. Seth Terkper however explained that even though borrowing from the local market was desirable, most of the local banks were unwilling to lend funds beyond 5 years and additionally were unable to lend to government on concessionary terms.

Anti Corruption

Pursuant to article 8.1 of the Loan Agreement, the Government of Ghana (Borrower) is required to "ensure that the persons charged by the same with the preparation and implementation of the project, the award of any contract for the supplies and services to be financed and with requesting disbursements of loan amounts do not demand, assume, render, grant, promise or obtain a promise of unlawful payments or other advantages in connection with these tasks"

6.0 TAXES AND PUBLIC CHARGES

Article 5(1) of the Loan Agreement stipulates that "the Borrower shall make all payments to be effected under this Agreement without any deduction for taxes, other public charges, or other costs, and shall pay the transfer and conversion costs accruing in connection with the disbursement of the Loan".

Again, the Government of Ghana (Borrower) is required to "bear all taxes and other public charges accruing outside the Federal Republic of Germany in connection with the conclusion and execution of this Agreement" (article 5.2).

The Committee entreated the Ministry of Finance and Economic Planning to endeavour to bring a formal request to Parliament for

the waiver of the relevant taxes and duties associated with the project for consideration and approval.

7.0 CONCLUSION

In view of the foregoing observations, the Committee recommends to the House to adopt this report and approve by Resolution, the **Loan Agreement** between the **Government of the Republic of Ghana** and **Kreditanstalt fur Wiederaufbau (KfW)** Frankfurt AM Main, Germany for an **amount of seven million Euros (€7,000,000.00)** for the **implementation of the e-Zwisch Rural Branchless Banking** in accordance with article 181 of the Constitution, sections 3 and 7 of the Loans Act, 1970 (Act 335) and the Standing Orders of the House.

Respectfully submitted.



HON. JAMES KLUTSE AVEDZI
CHAIRMAN



PEACE A. FIAWOYIFE (MS)
CLERK

22ND AUGUST, 2011