

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

**REPORT OF THE FINANCE COMMITTEE ON THE CREDIT
FACILITY AGREEMENT BETWEEN THE GOVERNMENT OF THE
REPUBLIC OF GHANA AND THE AGENCE FRANCAISE DE
DEVELOPMENT (AFD) FOR AN AMOUNT OF TWENTY-ONE
MILLION EUROS (€21.0 MILLION) TO FINANCE THE DISTRICT
DEVELOPMENT FACILITY II**

1.0 INTRODUCTION

The Credit Facility Agreement between the Government of the Republic of Ghana and the Agence Francaise de Development (AFD) for an amount of Twenty-One Million Euros (€21.0 million) to finance the District Development Facility II was laid in the House on Monday, 22nd October, 2012 and referred to the Finance Committee for consideration and report.

The Committee met and considered the Agreement with the Hon. Minister for Finance and Economic Planning, Dr. Kwabena Duffuor, the Hon. Minister for Local Government & Rural Development, Mr. Samuel Ofose Ampofo and officials from MOFEP & MLGRD and presents this report to the House pursuant to Order 161(1) of the Standing Orders of the House.

2.0 BACKGROUND

As part of the efforts to improve the performance of MMDAs in terms of efficiency, transparency and accountability, the Government of Ghana through the Ministry of Local Government and Rural Development (MLGRD) has established the District Development Facility (DDF) in collaboration with its key Development Partners. Under the DDF, the government mobilizes financial resources as a discretionary funding incentive to those Assemblies which comply with rules, legal regulations and policies in the performance of their mandate. Compliance is ascertained through an assessment conducted on a yearly basis using the Functional Organizational Assessment Tool (FOAT)

The overall objective is to ensure efficient provision of basic community infrastructure and service delivery through judicious use of resources. Contributors to the DDF are the Government of Ghana and four Development Partners namely; Canadian International Development Agency (CIDA), Danish International Development Assistance (DANIDA), German Development Bank (KfW) and Agence Francaise de Development (AFD) with a Letter of Intent signed to that effect. Following successful implementation of the programme, other Development Partners have shown interest to contribute to the DDF funding facility.

In addition, the Ministry in 2012 started the implementation of a similar performance based grant system for 46 urban assemblies with support from the World Bank.

3.0 PROJECT OBJECTIVE

The objective of the DDF is to:

- i. Mobilize additional financial resources for Metropolitan, Municipal and District Assemblies;
- ii. Provide incentive for performance for complying with Government of Ghana legal and regulatory framework;
- iii. Establish a link between performance assessments and capacity building support;
- iv. Ensure harmonized system for funding and capacity building support for MMDAs.

4.0 EXPECTED IMPACT

4.1 Economic Impact

It is expected that the credit facility will have an overall positive economic impact. First of all, with the implementation of the DDF the District Assemblies will be resourced with additional discretionary funds to implement local infrastructure projects. This will mean that local artisans and construction companies will directly and indirectly benefit by taking up contracts from the local infrastructure projects. In this way, money will circulate within the local economy and will be of benefit to local stakeholders.

Secondly, the additional infrastructure in local communities will improve service delivery in areas like education, health, water and sanitation sectors. This is expected to improve the local people's

long-term economic benefits from the services provided by the additional infrastructures.

4.2 Social Impact

It is expected that the credit facility will have an overall positive impact. Firstly, the additional number of social infrastructure like schools and health facilities will help to improve the delivery of social services in terms of quantity and quality. For example, provision of additional health facilities will help improve access and quality of basic health care. Another example is the provision of improved road networks and feeder roads, which will help to improve transportation means and improve interaction between people from different parts of a locality.

Secondly, the DDF is a national programme available for all Districts and will as such of potentially benefit all geographical regions and people from the various cultures and social backgrounds. With the increased discretionary funding available to district assemblies to help fund activities in their own annual work plans, it is more likely that local concerns and consideration will be supported and this could also contribute to a positive social impact.

4.3 Financial Impact

It is expected that the credit facility will have an overall positive financial impact. Firstly, Districts will receive additional discretionary financial resources to help fund their annual workplans. Secondly, it is expected that the investment in

infrastructure will provide a higher rate of return than the interest rates associated with this credit facility.

4.4 Legal Impact

It is not expected that the credit facility will have any other significant legal impact except that it requires parliamentary approval.

4.5 Political Impact

It is expected that the credit facility will help to improve the government's agenda to provide better infrastructure to local communities as assemblies around the country will initiate numerous infrastructure projects based on action plans developed in line with national development priorities as described in the last national development planning document from the National Development and Planning Commission (NDPC).

Secondly, it is expected that the credit facility will help create a significant number of employment opportunities at the local level for numerous artisans and craftsmen in connection with the infrastructure projects.

Thirdly, based upon the previous year's implementation of DDF, it is expected that the efficiency and effectiveness of the District Assemblies' administration system will further improve. This should again lead to improved service delivery within the different social sectors.

5.0 PURPOSE OF THE LOAN

The purpose of the credit facility is to obtain funds to support Metropolitan, Municipal, and District Assemblies (MMDAs) through the District Development Facility Performance Based Grant System.

6.0 TERMS OF THE FACILITY

The terms and conditions under the credit facility are as follows:

Loan Amount	-	€21.0 million
Interest Rate	-	1.84 per annum
Repayment Period	-	20 years
Grace Period	-	7 years
Maturity	-	27 years
Commitment Fee	-	0.50%

7.0 OBSERVATIONS

7.1 Financial Resources Transferred to Assemblies

The Committee observed that over the years, there have been an increased volume of financial resources transferred to the Assemblies but these have not matched the growing demand for services; hence the MMDAs are faced with a financing gap that hampers their overall performance.

In response, MMDAs have been regularly agitating for an increase in national resources transferred.

The Committee noted that performance of the MMDAs is further constrained by the numerous administrative, reporting and implementation arrangements associated with project financing or capacity building support from Development Partners. This situation undermines the financial management capacity of MMDAs and this has affected the granting of greater budget autonomy to local governments. Associated with this is the absence of linkage between performance assessments and additional funding.

The Committee further noted the effort to bridge the financing gap and to improve the performance of the MMDAs, led to the introduction of performance based grant, named District Development Facility, where access to the additional discretionary funds is linked to assemblies' regular performance achievements were evaluated via the FOAT.

7.2 Current Status of DDF

It was observed that as at end of June 2012, the DDF had completed four FOAT assessments for financial years between 2006 and 2010, and has so far transferred more than GH¢200.0 million to District Assemblies. A total of GH¢122.million is to be transferred in the third quarter of 2012 based upon the most recent FOAT IV assessment.

The Hon. Minister for Local Government and Rural Department informed the Committee that the Ministry will be undertaking its fifth FOAT assessment in the third quarter of 2012 and plans to

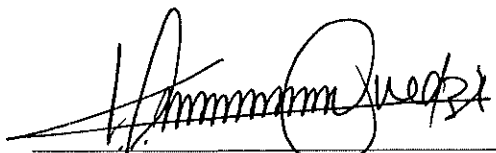
make the next transfer to district assemblies based upon this performance assessment of the assemblies. These financial resources will be available for the assemblies in early 2013.

He further informed the Committee that the FOAT assessment is a crucial and highly valued assessment system by many stakeholders. The Urban Development Grant which is supported by the World Bank also makes use of the FOAT assessment to evaluate urban assemblies' annual performance.


8.0 CONCLUSION AND RECOMMENDATION

The Committee having carefully examined the Credit Facility Agreement and considered benefits to be derived from the project in the various Districts in the foregoing observations recommends to the House to adopt this report and approve by Resolution, the Report of the Committee on the Credit Facility Agreement between the Government of the Republic of Ghana and the Agence Francaise de Development (AFD) for an amount of Twenty-One Million Euros (€21.0 Million) to support Metropolitan, Municipal, and District Assemblies (MMDAs) through the District Development Facility Performance Based Grant System in accordance with Article 181 of the Constitution and Section 3 and 7 of the Loans Act, 1970 (Act 335).

Respectfully submitted



HON. JAMES KLUTSE AVEDZI
CHAIRMAN, FINANCE COMMITTEE



PEACE A. FIAWOYIFE (MS)
CLERK, FINANCE COMMITTEE

31st October, 2012