

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

**REPORT OF THE FINANCE COMMITTEE ON THE
SUPPLEMENTARY FINANCING AGREEMENT
BETWEEN THE GOVERNMENT OF GHANA AND THE
INTERNATIONAL FUND FOR AGRICULTURAL
DEVELOPMENT FOR AN AMOUNT OF FIVE MILLION,
NINE HUNDRED AND FIFTY THOUSAND SPECIAL
DRAWING RIGHTS (SDR 5,950,000) [EQUIVALENT
TO US\$9,000,000.00] FOR THE RURAL AND
AGRICULTURAL FINANCE PROGRAMME (RAFIP)**

1.0 INTRODUCTION

The Supplementary Financing Agreement between the Government of Ghana and the International Fund for Agricultural Development (IFAD) for an amount of five million, nine hundred and fifty thousand Special Drawing Rights (SDR5,950,000.00) [equivalent to nine million United States Dollars (US\$9,000,000.00)] for the Rural and Agricultural Finance Programme (RAFIP) was laid in the House on Wednesday 2nd February, 2011 by Deputy Minister of Finance and Economic Planning, Hon. Seth E. Terkper on behalf of the Minister of 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 Food and Agriculture, Hon Kwesi Ahwoi, Deputy Minister of Finance and Economic Planning, Hon. Seth Terkper and officials from the Ministries of Finance and Economic Planning and Food and Agriculture 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

An *Agricultural Finance Strategy and Action Plan (AFSAP)* has been prepared by Government through an intensive consultative process with a wide range of stakeholders in both agricultural and financial sectors. The programme is being validated for a coordinated implementation with agencies that are implementing related aspects of *Food and Agricultural Sector Development Policy (FASDEP)* and *Financial Sector Strategic Plan (FINSSP)*.

The action plan of AFSDEP sets forth actions that are needed to improve the financing available to different actors in the agricultural value chain, especially those that are being supported through programmes such as *Trade and Investment Programme*

for a Competitive Export Economy (TIPCEE) and the Millennium Development Authority (MiDA).

The overall goal of the **Rural and Agricultural Finance Programme (RAFIP)** is to support improved and sustainable livelihoods of the rural poor, particularly women and vulnerable groups.

3.0 PURPOSE OF THE CREDIT

The purpose of the facility is to support the implementation of the *Rural and Agricultural Finance Programme (RAFIP)* in providing improved and sustainable livelihoods to the rural poor particularly women and vulnerable groups by improving their access to sustainable financial services through enhanced outreach, sustainability and linkages.

To achieve this purpose, the facility would be used to build the capacity of the ARB Apex Bank, Rural and Community Banks (RCBs) and Rural Microfinance Institutions (RMFIs).

4.0 TERMS OF THE CREDIT

Loan Amount	- SDR 5,950,000.00 (US\$9,000,000.00 equivalent)
Service Charge	- 0.75% p.a. on withdrawn amount

Grace Period - **10 years**

Repayment Period - **30 years repayment.**
Repayment shall be made in 60 equal semi annual installments on 15th January and 15th July each year starting from 15th July, 2020

Maturity Period - **40 years**

5.0 OBSERVATIONS

The Committee observed that in accordance with section 2.02 of the Loan Agreement, IFAD is required to open a Loan Account and a Supplementary Loan Account in the name of the Government of Ghana and to credit the amount of the Loan and the Supplementary Loan in those accounts. Government may request withdrawals from the Accounts from time to time between the effective date and the closing date.

The Committee noted that the Government of Ghana is expected to contribute approximately US\$2.72 million over a six-year period in the form of matching funds, taxes and duties foregone, since project funds will not be used to pay taxes and duties.

It was further noted that the Italian Grant of US\$1,512,000 shall be used to finance matching grant initiatives.

As per Section 2.02.(b) of the Agreement, IFAD shall open a Grant Account to be known as the "Italian Grant Account" in the name of the Government of Ghana (Borrower). Amounts received from the Italian Government for the Rural and Agricultural Finance Programme (RAFIP) would be credited to that account from which the Government of Ghana may request withdrawals from time to time in respect of Eligible Expenditures.

Indirect beneficiaries of the programme would include poor small scale farmers living in the rural areas who derive their livelihoods from agricultural production as well as women, youth and the vulnerable.

The Committee further noted that the total cost of the programme including taxes and duties is expected to be *forty-one million, nine hundred thousand United States Dollars (US\$41.9 million)* over a period of six years. This amount is to be contributed by various sources as follows:

NO	SOURCE	AMOUNT US\$'million	% OF PROGRAM COST
1	IFAD Loan 1	6.0	14.66
2	IFAD Loan 2	9.0	21.14
3	African Development Bank	9.1	21.60

4	World Bank	4.0	9.60
5	Italian Government	1.5	3.60
6	Government of Ghana (GOG)	2.72	6.50
7	ARB APEX Bank	2.34	5.60
8	Other Beneficiaries	7.24	17.30
TOTAL		41.9	100

The foreign exchange portion of the programme is estimated at US\$1.80 million representing 4.37% of the total programme cost whilst the local cost is estimated at US\$40.01 million, equivalent to 95.63% of the total cost.

The Committee was informed that the focus of the *Rural and Agricultural Finance Programme (RAFIP)* is on extending the outreach of the financial system to support rural poor engaged on aspects of the agricultural value chain nationwide and that particular attention will be paid to the northern part of the country which is predominantly rural and agricultural and where poverty levels are very high.

Again, Northern rural and community banks would be included in the scaling up of the Microfinance Support Initiative including financial literacy training to potential rural clients. Financial non-

governmental organizations (FinNGOs) would also be supported to help reach underserved rural communities in the North. +

The Committee was further informed that limited access of farmers to financial services is one of the major factors constraining agricultural productivity and growth. To help deal with this constraint, several financial schemes (such as financing through supply chain, matching grants, and micro-leasing) have recently emerged to improve access of farmers to financial services and to improve their income on a sustainable basis.

Agricultural finance is observed to be a major issue because of the importance of agriculture to livelihoods and growth and because credit to agriculture has been on relative decline. RAFIP therefore places emphasis on applying microfinance, value chain and other methodologies to develop and pilot suitable savings, loan and risk management products in collaboration with rural and community banks and other organizations engaged in supporting the agricultural value chain.

The Committee noted that benefits of the programme will accrue directly or indirectly to 125 Rural and Community Banks (RCBs), 20 other Rural Microfinance Institutions (RMFIs) and at least 30 Clients to be trained per annum per RCB in the microfinance roll-out programme. In 10 years time, it is expected that about 62,000 smallholder farmers will be actively borrowing for the

production of value chain commodities supported by Government Programmes/Agencies.

In accordance with section 5.02(b) of the Loan Agreement, the Government of Ghana (Borrower) is required to have the financial statements relating to the Programme audited each financial year by auditors in accordance with International Standards on Auditing and the Fund's Guidelines on Programme Audits.

Some Members were of the opinion that Government should not be borrowing funds to build the capacity of Rural Banks and Rural Microfinance Institutions since these institutions are essentially private profit making organizations.

Hon. Members of the Committee expressed concern about the lack of provision for funds to be made directly available to beneficiary farmers under the facility. To this, the Minister for Food and Agriculture, Hon. Kwesi Awohi explained that studies conducted by government showed that there are funds in excess of US\$300 million lying unutilized at the various rural banks and other financial institutions. Therefore, this loan is being sourced to train and build the capacity of rural financial institutions and farmer groups to help enhance their interface and financial dealings. The rural financial institutions would properly target their agricultural interventions to benefit farmers whilst farmers

would be trained on how, when and where to source available financing.

5.1 Taxes

In accordance with article 11.01 of the General Conditions governing IFAD Loans, 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.

6.0 CONCLUSION

In view of the above observations, the Committee respectfully recommends to the House to adopt this report and approve by Resolution, the **Supplementary Financing Agreement** between the **Government of Ghana** and the **International Fund for Agricultural Development (IFAD)** for an amount of *five million, nine hundred and fifty thousand Special Drawing Rights (SDR 5,950,000.00) (US\$9,000,000.00 equivalent)* for the **Rural and Agricultural Finance Programme (RAFiP)** 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

13TH JUNE, 2012