

MINISTRY OF  
FINANCE AND ECONOMIC DEVELOPMENT

**IN THE THIRD SESSION OF THE SECOND PARLIAMENT  
OF THE FOURTH REPUBLIC OF GHANA**

**REPORT OF THE FINANCE COMMITTEE  
ON A LOAN AGREEMENT OF UA11 MILLION  
(APPROXIMATELY US\$14.3 MILLION)  
BETWEEN THE GOVERNMENT OF GHANA AND THE AFRICAN  
DEVELOPMENT FUND FOR THE POVERTY REDUCTION PROJECT**

**1.0 INTRODUCTION**

The above Loan was laid in the House on Tuesday 12<sup>th</sup> January 1999 in accordance with Article 181 of the Constitution and Standing Order No.171 (1) for consideration and report.

1.1 The Committee considered the Agreement and all the relevant documents with the Deputy Minister of Finance Hon. Moses Asaga, the Director-General of the National Development Planning Commission, and representatives of the Ministries of Finance, Local Government and Rural Development and Employment and Social Welfare.

**2.0 PURPOSE OF THE LOAN**

The purpose of the loan is to finance:

- (i) 94% of the foreign costs of the National Poverty Reduction Programme (NPRP) such as Civil works, Equipment, Human Capital Development as well as Income Generating activities. The remaining 6% is being financed by the United Nations Development Programme (UNDP)

- (ii) 70.4% of local costs through the establishment of a Social Investment Fund (SIF) and other related research and capacity building activities such as access to micro-credit, provision of rural infrastructure, workshops and technical assistance.

### **3.0 BACKGROUND**

Despite significant improvement in the country's aggregate economic performance, after a decade of economic reform, poverty still remains a major problem for the people and is a source of concern for the Government. The country's experience within the period 1992-1998 has shown a sound macro-economic base following the reform, and this has had significant positive effects in reducing poverty. That notwithstanding post 1992 experience suggests that an improving yet a fragile macro-economic framework cannot, by itself, sustain the process of reducing poverty in a steady manner. The country's major challenge therefore, is to continue with economic reform and pursue a course of development that is not only sustainable but equitable, and one which offers the population better access to the needs of life.

The lesson of the country's recent experience is that economic growth must be sustained for a considerable period of time to have a lasting impact on poverty. For sustained growth to have an optimal impact on poverty, policies and programmes favouring poverty reduction must be instituted. Government believes growth is necessary but not sufficient to ensure widened poverty reduction. Sustained growth must ensure that a larger proportion of the population moves out of poverty conditions. In effect, growth must be effectively translated into meeting the necessary needs of an expanding population. The relationship between growth and poverty has some bearing on the Government's current approach to poverty reduction.

Poverty goes beyond its definition in terms of income to thinking about deprivation within a wider context. The focus of the Government's poverty reduction programme is to achieve rising and sustainable real household incomes, while also ensuring expanded access to economic and social infrastructure and services for the poor.

#### **4.0 THE NATIONAL POVERTY REDUCTION PROGRAMME (NPRP)**

The National Poverty Reduction Programme is a major weapon in the fight against poverty. It targets the roots of poverty by helping the poor communities which need demand driven activities in rural and urban areas. Its goal is to empower the poor to reduce their own poverty levels by identifying their needs, defining how their needs can best be addressed and satisfied. This is achieved by forging a partnership between the participating communities that contribute their time, labour and local resources and the NPRP which provides financial and technical support.

#### **4.1 Objectives of the National Poverty Reduction Programme**

The programme objectives are intended to:

- (i) Improve management
- (ii) Develop skills
- (iii) Set up a Social Investment Fund (SIF)
- (iv) Make poverty-reducing technologies more available and
- (v) Improve the position of women and the handicapped

#### **4.2 THE SOCIAL INVESTMENT FUND (SIF)**

The (SIF) is a component of the NPRP. The SIF is a demand-driven, community-based, rapidly disbursing and autonomously managed fund designed to work in partnership with Community-based Organisations (CBO's) and local Governments to reduce poverty in Ghana. It has three components, these are:

(a) **The Community Outreach Component** which will inform, educate and communicate with stakeholders and put in place a participatory impact monitoring/evaluation system;

(b) **SIF Management Component**

This component funds the Central Project Management Unit (PMU) and local district liaison officers (DLOs) to facilitate project management and administration. The PMU will supervise, monitor report on and evaluate SIF activities and their impact and ensure the application of policies and procedures in the Operations Manual.

(c) **The Fund component** support activities identified by participating poor communities through three sub-components. These are:

#### **4.3 Sub-Project Grants**

The grant will improve access of the poor to basic social and economic infrastructure and services by funding demand-driven sub-projects identified, prepared and presented for funding by CBO's with technical assistance, when needed, from NGO's and /other entities.

#### **4.4 Funding for Micro-Finance**

Production and income-generating activities will be supported through a revolving credit programme that will make resources available to local Micro-Finance Institutions (MFI's) for eventual on lending once a capacity building effort has been completed.

#### **4.5 Capacity Building**

Capacity building will be financed to strengthen the efforts of CBO's, NGO's, Local governments and others to reduce poverty. Local government's services of direct relevance to the poor will be helped if they are not supported by other donors.

The Expenditure on the Project, covering civil works, furniture, equipment, investment fund and operation cost is attached as Annex 1.

#### **5.0 TERMS AND CONDITIONS OF THE LOAN**

The terms and conditions of the ADB loan are:

- Loan Amount: UA11.0 million (approximately US\$14.3 million)
- Duration: 50 years
- Grace Period: 10 years
- Service Charge: 0.75% per annum on the disbursed and outstanding amount
- Commitment Charges: 0.5% on the undisbursed portion of the loan from 120 days after loan signature
- Repayment: 1% of the principal, annually from the 11<sup>th</sup> to the 20th year and 3% per annum thereafter.

## **6.0 OBSERVATION**

### **6.1 Beneficiaries**

The Committee noted that the direct and primary beneficiaries would be the poor communities who work through their CBO's. Also women, the youth, the handicapped and street children, the rural and urban poor will all benefit. Through training and capacity building initiatives, it is envisaged that local NGO's and Micro-Finance Institutions (MFI's) will immensely benefit since the SIF supporting activities will fund activities that facilitate access by the poor to basic economic and social infrastructure and services and would also enhance access of the poor to financial services by increasing the availability of micro-finance and strengthen the capacities of CBO's NGO's, MFI's and Local government support of poverty reduction.

### **6.2 Criteria used for selection**

The Committee was apprised on the modality used in selecting the four districts (Afram Plains, Dangbe West, Juabeso Bia and Bongo). The selection was based on the basis of deprivation scores attained when the one hundred and ten (110) administrative districts of the country were superimposed on the ecological map of Ghana. For the Northern Savannah Ecological Zone (Bongo), the Forest Zone (Juabeso-Bia), the Coastal Savannah (Dangbe West) and the Transitional Zone (Afram Plains). It however emerged that Afram Plains was selected based on an added factor of inaccessibility and Accra has been awarded

a fifth slot after an “after-thought” when it emerged that urban poverty was also on the increase and necessitated the need for its monitoring.

The Committee noted that in ascertaining the degree of deprivation, the development within the district capitals was used. The services used as indicators are:

- Political and Administrative (whether the district capital houses the National or Regional Administration and the number of decentralised department(s).
- Post and Telecommunication facilities
- Health Service facilities
- Educational services facilities
- Electricity
- Mode of water supplies
- Judicial Service
- Banking service and
- Level of urbanisation, based on the population of the District Capital.

**6.3** It is also heart-warming to note that 68.6% of the total loan being contracted would be used directly to assist the beneficiary communities in the form of infrastructure and service under the SIF Component 1, whilst under SIF Component 2, the micro-credit facility, in the form of on-lending revolving credit programme, would be used to support income generating activities.

This is a deviation from the disbursement of previous loans where greater percentage of it was used for administration, procurement of equipment and technical assistance.

Further the Committee observed that under the project no new structures would be created, existing institutions like the Department of co-operatives, local NGO's, District Assemblies and Department of Social Welfare would be used to facilitate the project implementation.

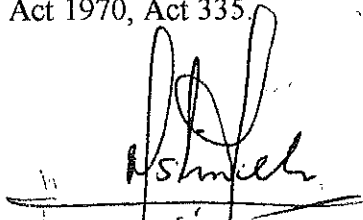
The Committee also learnt that since this is a pilot project, plans are afoot to solicit more funding for the project which will eventually be extended to the whole country. To this end funding is being sought from organisations like OPEC, the World Bank, the European Union etc.

#### **6.4 RECOMMENDATION**

The Committee expects that with the implementation of the poverty reduction project, a corridor of opportunity for the poor would be opened to better their living conditions. This is in line with the Government's economic reform policies.

The Committee therefore recommends to the House for approval, the Loan Agreement of Eleven Million Units of Accounts (UA11 Million) (approximately US\$14.3 Million) between the Government of Ghana and the African Development Fund for the Poverty Reduction Project in accordance with Article 181 of the Constitution and Section 7 of the Loans Act 1970, Act 335.

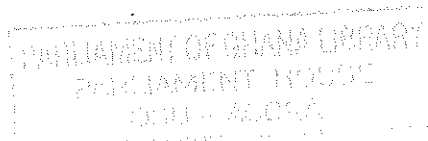
**6.5** Respectfully submitted.



**HON. (CDRE) S.G. OBIMPEH (RTD)  
CHAIRMAN**



**ASANTE AMOAKO-ATTA  
CLERK TO THE COMMITTEE  
17TH FEBRUARY, 1999**





ANNEX

FUND CATEGORY OF EXPENDITURE

(UA '000)

Category of Expenditure	Foreign Currency	Local Currency	Total Costs
A. Civil Works	9.4	39.4	78.8
B. Furniture	36.6	36.6	73.2
C. Equipment	504.6		504.6
D. Training	99.2	158.7	257.9
E. Technical Assistance	314.6	134.1	448.7
F. Specialized Services	88.2	282.2	370.4
G1. Funds Sub-Component 1	3,981.7	2,722.2	6,703.9
G2. Funds Sub-Component 2	419.1	419.1	838.2
H. Operating Costs	83.8	1,640.5	1,724.3
TOTAL COST	5,567.2	5,432.8	11,000.0