

Ghana Rural Financial Services Project (RFSP)

Item	Assessment Remarks	Rating
Country & Project Name	Ghana Rural Financial Services Project (RFSP)	
Loan Number	532-GH	
Project Id.	1134	
Board Date	May 2000	
Effectiveness Date	January 2002	
Original Closing Date		
Final Closing Date	December 2008	
Total Project Cost USD(M)	USD 22.96 million	
IFAD loan USD (M)	USD 10.12 million	
Cofinanciers (if any)	USD 5.13 from IDA; USD 5.01 million from African Development Bank (AfDB); USD 1.95 million from Local governments	
Implementing Agency	The Project Steering Committee (PSC) acting through the RFSP Project Management Unit (PMU) was responsible for the implementation of the project.	
Principal Components	It aimed at promoting growth, reducing poverty and deepening rural financial intermediation. Project's components were: i) Capacity building - Informal sector; ii) Capacity building - Rural and Community Banks (RCBs); iii) Institution Building - Apex; iv) Institutional Support.	
Project Performance		
Design	Project design incorporated the lessons learnt by BoG and from earlier donor supported projects. In general, the concept was well thought out and was based on international best practice available at the time . RFSP's had a holistic approach encompassing the spectrum of rural finance actors from the central banks, apex bodies down to SHGs and other MFIs, and explicitly fostering linkages between these actors. However, with regard to the microfinance component, project design presented some flaws . First, this component was added after the design of the project was essentially completed and was not well integrated into the overall project. In addition, in shaping the microfinance component, the India experience was taken into account but conditions and local traditions in Ghana are quite different and this was not sufficiently considered nor was local input being incorporated . Finally, the concept to link existing rural microfinance institutions (credit unions, susu collectors, etc.) to rural community banks (RCBs) was flawed in that these institutions are operating in the same markets and see themselves as competitors rather than being in a complementary position. So, there was no demand for such linkages. With regard to the M&E, this was poorly designed with no quantifiable targets in the logframe ; in addition, baseline data were not available until two years into the project.	4
Implementation	Project start-up was hampered by the electoral cycle , as the new Government elected in 2000 wanted to re-evaluate all donor-funded projects agreed by its predecessor. The result was that conditions for project effectiveness (for IFAD and IDA) were met only after significant delays . A second consequence was that what started out as joint financing ended up being somewhat out-of-step, a situation compounded by different approaches to project duration that meant IFAD and IDA projects closed at different times. After the project became effective, the supervision team initiated remedial efforts to deal with design weaknesses. The Bank and IFAD conducted a mid-term review (MTR) in early 2005, justifiably two years later than scheduled because of the slow start. During the MTR, the Capacity Building-Informal Sector component was revised to focus on training and capacity building proven most likely to achieve results in improving performance and outreach of rural MFIs and linking them to CBOs (community based organisations) and SHGs (self-help groups). With regard to M&E, a dramatic improvement came about in the range and quality of indicators as well as structure and design of data collection in mid-2004.	4
Relevance	The project goal to strengthen the rural financial system was very relevant as rural economic development was seriously hindered by the lack of poor agricultural services and inadequate access to financial services. In addition, the strategy of supporting the rural microfinance within the wider framework of rural finance while simultaneously fostering linkages between mainstream microfinance and rural finance would mitigate a risk of a fragmented and divergent rural finance and microfinance sectors emerging. Project was consistent with the WB's Country Assistance Strategy (CAS) of March 2000 which supported private-sector led economic growth, agricultural development and the need to address lagging regions in particular the Northern areas of Ghana. It was also consistent with the 1998 IFAD Country Strategic Opportunities Paper (COSOP) which focused on achieving improved, diversified and sustainable livelihoods for the rural poor, including <i>inter alia</i> the development of pro-poor rural enterprise and rural finance in the context of an	5

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	inclusive private sector. It correctly addressed the lack of financial services as the critical missing link of an integrated rural development strategy. The project's objective of strengthening rural financial institutions was also relevant given the fact that at Government level there was no single overarching policy framework or strategic approach for the rural microfinance.	
Effectiveness	Notwithstanding the initial design flaws, achievements against indicators are substantial. Difficulties were encountered in linking formal and informal rural finance sectors, but the project responded pragmatically by narrowing focus. The same pragmatism ensured results were attained among MFIs (microfinance institutions), despite poor design. Compared with the Project Development Objective indicators, the total annual savings mobilized by RCBs increased by an annual average of 40% per annum (p.a.) which is in excess of the target of 30% p.a.) while the total number of clients increased overall by 17% p.a. (against a target of 20% p.a.) with figures for borrowers and savers of 27% and 15% respectively. Similarly total annual loans amounted to 59% of deposits, above the 50% target.	5
Efficiency	The economic justification at appraisal adopted a cost effectiveness approach, positing that project resources will result in large increase in deposits (of 100%), an increase in the share of credit in RCB assets (rising from 33 to 40% on average and to 50% among satisfactory-rated RCBs), and an increase in the cost-recovery of training provision from 25 to 75%. With the exception of the cost-recovery ratio, which remains somewhat of a concern, these parameters have all been surpassed by project end. On the less positive side, project's efficiency was hindered by the long delay to become effective.	4
Partner Performance		
IFAD	As of November 2008, IFAD's loan disbursement stood at 99.14%. The majority of WB-led supervision missions included either IFAD-appointed consultants and/or the Country Program Manager, which contributed significantly to implementation support and helped build a strong unity of purpose between partners. However, IFAD is deemed accountable for initially design flaws concerning the microfinance component.	4
Cooperating Institution	WB's performance shows a mixed picture. Project's design reflected international best practice as well as experience with prior Bank operations and appraisal was done jointly with co-financiers (IFAD) and parallel financiers (AfDB). However, inappropriate design and lack of integration of the component supporting the informal financial sector was a serious flaw. The delays associated with the change of government might have been foreseen. Having being designated as the CI by IFAD, WB undertook regular supervision missions, was pro-active in identifying and addressing weaknesses of design at an early stage, put in place remedial measures and provided comprehensive and action-oriented aide memoires. The Bank effectively supervised both IDA and IFAD financing. A strong rapport was established with GoG, BoG and other counterparts and sensitive institutional concerns affecting project performance were raised with authorities with tact and diplomacy, resulting in the necessary changes being made. From the revision of the M&E and preparation of the MTR onwards, supervision standards were exemplary and judged to be best practice within the Bank.	4
Government	The performance of GOG was satisfactory concerning the following issues: i) counterpart funding was provided as anticipated in terms both of amounts and timing; ii) GOG did not interfere in the implementation of the project by the BOG. However, GoG's performance was harmed by the following issues: i) the substantial delays from approval to effectiveness following the inauguration of the new government; ii) GoG chose not to fully integrate NAMFIC (and its successor MASLOC) into the apex structures, while at the same time continuing to implement credit programs that were distorting the finance sector by employing subsidized interest rates; iii) Government failed to approve the GHAMP (Ghana Microfinance Policy) and thus the microfinance sector still lacks a clear policy framework. The decision to locate the project implementation within the Bank of Ghana (BoG) proved to be a good one. BoG remained committed to project objectives throughout implementation, and it ensured that all financial covenants were complied with. The Banking Supervision Department (BSD) effectively hosted the PMU and assigned necessary staff early on. Coordinating the cofinancing from IFAD and IDA with the parallel financing from AfDB (African Development Bank) was a particular challenging task. Support to the microfinance component was less forthcoming as this component was implemented by the MoFEP's Microfinance Unit (MFU) that showed limited capacity and experience. Project reporting has been good, with regular periodic progress reports submitted to the Bank and GoG in a timely manner.	4
NGO/Other	None	

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Cofinancier(s)	The PCR does not provide much information. However, the PCR mentions that cooperation with AfDB supervision missions was difficult due to their lack of country presence and ad hoc timing of supervision missions.	3
Combined Partner Performance	The operation provides two contrasting experiences of donor collaboration, with the IDA/IFAD cooperation proving exemplary. The Bank enjoyed a strong and highly competent field presence, and was able to bring in other highly experienced staff for scheduled supervision assignments (supplemented by IFAD staff in most supervision missions and especially at MTR). This contrasts with the anticipated collaboration with AfDB parallel financing, which was implemented separately and managed from Tunis because AfDB lacked a country presence.	4
Rural Poverty Impact		
Physical Assets	NA	NA
Financial Assets	The RFSP has contributed significantly to the expansion of rural financial services and a more robust finance sector. The number of clients of rural MFIs, excluding clients of susu collectors, increased from 1.3 million in 2001 to 3.2 million in 2006. Estimates suggest that rural MFIs now reach 15% of the population; 45% are women and 30% in the lower two poverty quintiles. Total savings and number of clients of susu collectors increased 410% and 261% respectively from 2002 to 2007. Similarly, total assets of CUs increased by 248% and membership rose by 60%, while loans (624%) and deposits (307%) also increased. It is not possible to discern the poverty impacts of RFSP as no baseline study that linked financial services and rural poverty was undertaken. However, living standards surveys undertaken around the start and end of the project report a reduction in the rural poverty rate of 50% to 39%.	5
Food Security	Not assessed.	NA
Environment	Not assessed.	NA
Human Assets	465 MFIs benefitted from training under the project, as well as the RCBs were given training on customer care, treasury and credit management, money laundering, internal controls, and check clearing. In addition, strategic business plans were developed for the 15 selected RCBs and three training manuals developed. These capacity building measures were certainly the appropriate activities in order to build viable rural financial institutions. RFSP also contributed to improve the ability of the MFU and BSD to oversee the microfinance sector.	5
Social Capital and Empowerment	Not assessed.	NA
Ag. Productivity	Not assessed.	NA
Institutions and Services	RFSP was essentially an institutional strengthening operation. It focused on existing front-line organizations and established apex-bodies , thereby avoiding the difficulty of creating new institutions. RFSP resulted in a rapid expansion of the RCBs over the period 2001 to 2005, with growth rates around 300% of assets. There was also an improved outreach and quality of services provided by RCBs to clients, particularly amongst women. At this regard, RFSP resulted in a significant improvement in performance of RCBs, in terms of both outreach and quality of services provided by RCBs to their clients. The number of RCBs increased from 115 to 125. In addition, RFSP contributed to establish a professional and functioning Apex Bank that played a crucial role as a conduit for project activities directed at its members (i.e. the RCBs) without which project objectives would not have been achieved. Similarly, the other apex bodies in the microfinance sectors were instrumental in coordinating project activities with their members.	5
Markets	Not assessed.	NA
Rural Poverty Impact		5
Overarching Factors		
Innovation	RFSP was recognized as a pioneering intervention to improve access to rural financial services and has hosted international study tours to allow others to learn from its experience.	5
Replicability and Scaling-up	IFAD has approved its new Rural and Agricultural Finance Program (RAFiP) to continue support to the sector. RAFiP builds on RFSP and in particular the institutions strengthened under the project. RAFiP will continue the capacity building agenda under RFSP. On the other hand, the WB decided not to proceed with a second phase operation.	5
Innovation, Replicability and Scaling-up		5
Sustainability and Ownership	The potential for sustainability of RFSP's achievements is likely , in view of the following i) majority of RCBs, in particular, have achieved OSS and are striving to achieve FSS; ii) outreach levels for deposits and loans are being grown continuously with a view to enhancing profitability; iii) capacities of the staff of RMFIs are being	5

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	built in credit management to minimize default rates and loan failures; iv) financial products are being developed to meet the needs of rural clients; and v) development of financial infrastructure (e.g. credit reference bureaus, e-switch smart card) to minimize transaction costs in delivering rural financial services as well as reducing loans default risk.	
Targeting	The PCR does not give much information on targeting. It mentions that project beneficiaries were identified as rural households who would avail themselves of new employment opportunities and income-generating investments resulting from enhanced rural financial services. Women were supposed to benefit disproportionately from the project. The PAD also identified the target population as including officials working with the RCBs including accountants, managers and directors, as well as their shareholders. However, it is not clear what strategies and tools the project has used to target the poorest and most vulnerable.	4
Gender	Gender issues did not feature prominently in the PAD – only one output indicator had a gender dimension – but these were expanded upon early during implementation. A concerted effort was made to disaggregate data by gender. The poverty outreach study and the assessment of financial performance of rural MFIs included gender aspects. Following the recommendation at MTR, the Bank secured trust fund resources to develop a methodology for capacity building in financial literacy for women which was subsequently adopted by the Facilitating Agency under the MSI. M&E data shows that women consistently accounted for 45% of depositors and about 40% of borrowers of RCBs. By the end of the project, women accounted for 40% of members of CUs and 60% of clients of susu collectors.	4
Overall Performance		5
Estimated number of beneficiaries	330,000 rural clients would benefit directly as clients of RCBs or through membership of 8,000 self-help groups (SHGs) or <i>susu</i> groups. Women would benefit disproportionately since they were reckoned to constitute 60% of SHGs and 70% of <i>susu</i> clients. The PAD also identified the target population as including officials working within the 111 RCBs including 220 accountants, 500 – 800 managers and directors, as well as their shareholders.	
PCR Quality		
Scope	The PCR was prepared by the WB and does not cover all the sections and annexes required by IFAD.	NA
Quality	Report prepared by the WB. Not fully satisfactory.	4
Lessons	Overall, lessons learnt are relevant for the design of a future project.	5