



1. Project Data :
OEDID: C2318
Project ID: P000911
Project Name: Second Financial Sector Adjustment Credit (FINSAC II)
Country: Ghana
Sector: Financial Adjustment
L/C Number: C2318
Partners involved : Switzerland
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2. Project Objectives, Financing, Costs and Components :
Under FINSAC II, the Government intended to consolidate the achievements of the previous credit, FINSAC I, and move toward further deepening, diversification and strengthening of the financial sector. The objectives of FINSAC II included: (i) encouraging positive real deposit and lending rates by remunerating legal reserve requirements; (ii) increasing competition in the banking system; (iii) pursuing the bank restructuring program, including privatization, and the recovery of nonperforming assets; and (iv) upgrading professional skills of bankers, accountants and insurance professionals. This second credit of US\$100 million equivalent was approved in May 1991 and was closed in March 1997. The credit was almost fully disbursed and was cofinanced by the Swiss Government.

3. Achievement of Relevant Objectives :
The project has made substantial progress in implementing its institutional development impact components . Individual restructuring plans for distressed banks prepared under the previous credit have been fully implemented and have resulted in significant improvements in both financial and operational performance of the banks since 1991. Competition in the Banking system has also increased . The number of Banks has increased from 12 in 1991 to 18 in 1996 and most banks are engaged in a broad spectrum of banking operations . The performance of the institution established to facilitate the recovery of nonperforming assets was satisfactory, since most of the amounts targeted during the period 1990-95 were collected. Finally, the extensive training programs for bankers, accountants and insurance professionals, started under FINSAC I, were continued under FINSAC II . The financial sector policies supported by the FINSAC II program, however, did not lead to financial sector deepening because of continuing fiscal imbalances and macroeconomic instability .

4. Significant Achievements :
Very significant achievements are the restructuring and privatization of large state -owned banks.

5. Significant Shortcomings :
A shortcoming has been the lack of deepening of the financial sector as measured by M 2/GDP and the ratio of currency outside banking system to deposits .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

One lesson is that financial sector loans with financial deepening objectives and which include policy reforms should be implemented in periods of macroeconomic stability. Moreover, macroeconomic performance conditions from tranche release, either within the same loan (FSAL) or in an associated adjustment loan (SAL), should be clearly specified and strictly followed. Another lesson is that financial infrastructure and institutions take a long time to restructure. Financial sector institution building projects should precede financial sector policy loans, especially in periods of macroeconomic imbalance

8. Audit Recommended? Yes No

Why? FINSAC II has been already audited together with FINSAC I (see PAR Report No. 16789, June 1997) in the aim to assess the outcome of the overall financial reform effort in Ghana under the two loans, as well as the specific contribution of each loan to the reforms. The PAR rated the outcome of FINSAC II as marginally satisfactory instead of satisfactory in the ICR review, and its sustainability as uncertain instead of likely. At the time of the audit mission (June 1996) there was not enough evidence for a fully satisfactory outcome, especially in the areas of privatization of banks and achievements of the broader objectives. Also, at that time, the macro economic situation (inflation) was more fragile and macroeconomic prospects less optimistic. Since then, however, more positive results have led to a more positive overall assessment of the second credit.

9. Comments on Quality of ICR :

The ICR is of good quality. It is well supported by facts and the overall assessment is carefully balanced . No comments were received from the Borrower .