# Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 16-Oct-2023 | Report No: PIDA36897

## BASIC INFORMATION

### A. Basic Project Data

| Country | Project ID | Project Name | Parent Project ID (if any) |
|---|---|---|---|
| Ghana | P180718 | First Resilient Recovery Development Policy Financing (P180718) | |
| Region | Estimated Board Date | Practice Area (Lead) | Financing Instrument |
| WESTERN AND CENTRAL AFRICA | 07-Dec-2023 | Macroeconomics, Trade and Investment | Development Policy Financing |
| Borrower(s) | Implementing Agency | | |
| Republic of Ghana | Ministry of Finance | | |

**Proposed Development Objective(s)**

To restore fiscal sustainability; support financial sector stability and private sector development; improve energy sector financial discipline; and strengthen social and climate resilience.

**Financing (in US$, Millions)**

**SUMMARY**

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| **Total Financing** | 300.00 |

**DETAILS**

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| **Total World Bank Group Financing** | 300.00 |
| World Bank Lending | 300.00 |

Decision

The review did authorize the team to appraise and negotiate

### B. Introduction and Context

Country Context

**Ghana is facing a severe macroeconomic crisis and social hardship, as longstanding structural weaknesses have been exacerbated by exogenous shocks and policy slippages.** An exceptionally loose fiscal stance, covered in large part by expensive (external and domestic) commercial debt compounded by significant energy sector shortfalls, has been at the heart of the fragile macroeconomic environment and of the crisis that unfolded in 2022. The fiscal stance and public debt have become unsustainable, inflation has risen to over 40 percent, the balance of payments is under acute pressure, and GDP growth has fallen sharply. The burden of the crisis (high inflation and low growth in particular) has fallen on the vulnerable segments of the population: the international poverty rate (2.15 in 2017 USD PPP) is estimated to have increased to 32.6 percent in 2023 up from 25.2 percent in 2017. The inflation shock alone is estimated to have pushed over 800,000 Ghanaians into poverty over 2022. Food insecurity during the period has also worsened.

**Restoring fiscal and debt sustainability, lifting long-term growth, significantly lowering inflation, and rebuilding fiscal and external buffers are now urgent policy priorities for the government**. The authorities have sought support from development partners for this policy agenda. They concluded a Staff Level Agreement with the IMF in December 2022 and have since completed the first and principal phase of a Domestic Debt Exchange Program (DDEP), implemented a standstill on debt repayments to external creditors, and sought official debt restructuring under the Common Framework. On the domestic side, the 2023 budget includes a frontloaded fiscal consolidation, while the Bank of Ghana has tightened its monetary policy stance to tackle inflation. The IMF's Board approved a three-year ECF program of about US$3 billion equivalent on May 17, 2023, with emphasis on frontloaded fiscal consolidation and tight monetary and exchange rate policies, complemented by structural reforms in the areas of tax policy, revenue administration, and public financial management, as well as steps to address weaknesses in the energy and cocoa sectors.

This DPO series will support a reform program aimed at restoring macroeconomic stability, (notably through efforts to boost domestic revenue mobilization and to better control spending), addressing financial sector weaknesses, removing impediments to private investment, putting the energy sector back on a surer financial and operational footing (also key for fiscal recovery), strengthening the country's social protection architecture, and ensuring that climate adaptation and mitigation are better mainstreamed in policies.

## Relationship to CPF

**The proposed operation is closely aligned with the Ghana 2022 CPF**, as it strives to balance emergency economic crisis response with the creation of conditions for long term resilient recovery. Consistent with the WBG COVID-19 Response Framework, the 2022 CPF seeks to support the government in managing the impact of the COVID-19 crisis by preserving critical human capital and capabilities, building back better for a dynamic and diversified economy, and creating job opportunities for a greener, more resilient, and inclusive society. The three focus areas are: (i) Enhancing Conditions for Private Sector Development with Quality Job Growth; (ii) Improving Inclusive Service Delivery; and (iii) Promoting Sustainable Resilient Development. The proposed operations will support area (i) through Pillar B, via greater financial sector stability and a more conducive investment climate and through Pillar C, via a financially more sustainable energy sector, as well as area (iii) through Pillar A, via enhanced macro-fiscal resilience, and Pillar D, via improved climate and environmental resilience.

**Policy implementation under the proposed DPF series is supported by a number of complementary WBG projects and technical assistance**. The series' design has considered ongoing and pipeline projects and leveraged synergies by ensuring that the supported policy reforms would facilitate project implementations and/or benefit from it. The PFM for Service Delivery Program (P176445) will help improve domestic revenue mobilization and strengthen budget control systems. The Ghana Emergency Financial Stability Project (P180719) will help set up and fund the financial stability sector fund. The Ghana Economic Transformation Project (P166539) will benefit from (and have informed) reforms to improve the business and FDI environment. The pipeline Ghana Energy Sector Recovery Program (P173258) is being designed jointly with the energy sector reforms supported by this series. Finally, the Ghana Tree Crop Diversification Project (P180060) and Ghana FIP - Enhancing Natural Forest and Agroforest Landscapes - Project (P148183) will benefit from and support reforms around the Wildlife Resource Management Bill, the CREMAs and land management.

## C. Proposed Development Objective(s)

To restore fiscal sustainability; support financial sector stability and private sector development; improve energy sector financial discipline; and strengthen social and climate resilience.

### Key Results

Key results expected from the operation are as follows:
**Pillar 1**: increased non-oil domestic revenue mobilization
**Pillar 2**: improved financial sector resilience and improvements in FDI
**Pillar 3**: improved financial and operational performance of the power sector and management of sector resources
**Pillar 4**: more and better targeted social safety nets, improved representation of women in public life, and strengthened regulatory and institutional framework to mitigate emissions and adapt to climate change

## D. Project Description

**The proposed development policy operation (DPO), the first in a series of three, supports the Government of Ghana's efforts to restore macroeconomic stability and lay the foundations for sustainable and resilient economic growth.** The first operation in the series takes the form of an International Development Association credit of US$300 million to the Republic of Ghana. The program development objective (PDO) is to (i) restore fiscal sustainability; (ii) support financial sector stability and private sector development; (iii) improve energy sector financial discipline; and (iv) strengthen social and climate resilience. The reforms supported by this DPO are at the core of the Government of Ghana's (GoG) "post COVID-19 program for economic growth" (PC-PEG) and are complementary to a parallel IMF Extended Credit Facility (ECF) program.

Pillar 1 supports the government in bringing the economy back on a sustainable macro-fiscal path. The proposed reforms would address key constraints to domestic revenue mobilization (DRM).

Pillar 2 aims to support the government in laying solid foundations for private-led sector economic recovery, supported by a sound and stable financial sector. The proposed reforms under this pillar support the growth agenda through actions to ensure that (i) the financial sector remains resilient and able to support private investment and (ii) obstacles to foreign direct investment (FDI) are removed, so as to boost economic activity and provide a source of much needed foreign exchange, technical knowhow and linkages to global supply chains and markets.

Pillar 3 aims to support the GoG's efforts to deliver key actions under the Energy Sector Recovery Programme (ESRP) to enable the sector's financial recovery.

Pillar 4 aims to support the government's efforts to mitigate the social impact of macroeconomic adjustment on the most vulnerable and build stronger foundations for economic and environmental resilience. The Bank is also aiming to leverage ongoing GoG initiatives to foster greater empowerment of women, through landmark legislation on gender equality and the prevention of domestic violence. Additionally, the pillar supports actions to operationalize some of the key recommendations of the Country Climate and Development Reports (CCDR), such as the legal framework required to mainstream climate change into public policy.

## E. Implementation

### Institutional and Implementation Arrangements

**The Ministry of Finance will have overall responsibility for the implementation, monitoring, and evaluation of the proposed operation.** The World Bank will also rely on ongoing and planned projects and engagements that support each of the four pillars in this proposed operation to maintain a technical dialogue and monitor progress in the DPF-supported activities related to those projects. Progress monitoring will rely on the Government and donors. Relevant reports will include, but not be limited to: (a) Annual and Mid-year budget reviews; (b) Quarterly reports from the Ministry of Gender, Children and Social Protection regarding payments under the Livelihood Empowerment Against Poverty (LEAP) program; (c) MoF detailed monthly reports on budget developments (revenues, expenditures, MDAs' and financing as posted on the MoF's website) with a lag of no more than six weeks after the end of each month; (d) and NDPC annual progress reports; € Controller and Accountant General Department's regular and ad hoc progress reports; (f) the IMF's staff reports as well as Article IV reports; (g) the PFM reform program updates and Public Expenditure and Financial Accountability (PEFA) assessment reviews; (h) other official documents, as available (memoranda, gazette, and so on), as a means of verification of policy decisions or institutional changes.

## F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

### Poverty and Social Impacts

The operation as a whole, and most prior actions, are expected to have positive poverty and social impacts. In particular, efforts to enhance the generosity, targeting and functioning of the LEAP program, as well as to safeguard funding for the National Health Insurance Scheme should have substantial positive effects, thus mitigating the impact of the ongoing economic crisis. At the same time, the increases in electricity tariffs are likely to have substantial adverse social implications and require additional effort to improve the targeting of social safety nets on measures of poverty.

### Environmental, Forests, and Other Natural Resource Aspects

Prior Action #9 which focuses on the approval of the Environmental Protection Authority (EPA) Bill to Parliament with climate change mitigation and adaptation provisions, will have significant environmental benefits. It will demonstrate a commitment to reducing greenhouse gas emissions and addressing the causes of climate change, helping to mitigate the impacts of climate change, such as extreme weather events, rising sea levels, and habitat loss. Prior Action #10 which focuses on building resilience to climate shocks and diversifying livelihoods through community-based natural resource management and implementing the Wildlife Resource Management Bill can have several environmental benefits. The establishment of Community Resource Management Areas (CREMAs) and the Wildlife Resource Management Bill provide a legal framework for community involvement in natural resource management. This enables local communities to actively participate in the conservation and protection of wildlife and biodiversity in their respective areas.

## G. Risks and Mitigation

**There is a substantial overall risk to the achievement of the intended development results, driven by high macroeconomic and institutional capacity for implementation risks, as well as by substantial political and governance and stakeholder-related risks.** The program is being undertaken in a context of high economic and substantial political uncertainty. Ghana is in the middle of a difficult debt restructuring process and has embarked on an IMF supported program that leaves only limited room for policy slippages. Moreover, with Ghana's current Parliament almost evenly split between the two main parties, the imminence of elections in 2024 is likely to intensify competition, increasing fiscal and governance risks. Finally, the capacity to implement critical reforms in the energy sector is hampered by a lack of coordination between key stakeholders. The macro and political risks are mitigated by the government's strong commitment to the implementation of structural reforms and fiscal consolidation, coupled with IMF program support. The stakeholder risk in the energy sector is mitigated by in-depth engagement and sector dialogue.

## CONTACT POINT

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### Borrower/Client/Recipient

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## APPROVAL

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**Approved By**

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|---|---|---|
| Country Director: | Anne Tully | 16-Oct-2023 |